DOCUMENT RESUME

ED 173 702 CG 013 607

TITLE	Retirement, Work, and Lifelong Learning; Hearing Before the Special Committee on Aging, Ninety-Fifth Congress, Second Session. Part 2.
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Special Committee on Aging.
PUB DATE	18 Jul 78
NOTE	70p.; For related documents see CG 013 606-609 ; Some small print may be marginally legible
AVAILABLE FROM	Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	*Age; *Economic Factors; Federal Legislation; Federal Programs; *Fringe Benefits; *Older Adults; *Population Trends; *Retirement

ABSTRACT

The transcripts of testimony given before the Senate Committee on Aging by the Secretary of the Department of Labor, F. Ray Marshall, and Ewan Clague, consultant and former Commissioner of the U.S. Bureau of Labor Statistics, are presented. Issues reviewed in these statements address the following areas of concern: retirement trends, economic problems, an aging population, CETA efforts, employment benefits for older workers, and the Consumer Price Index. The appendices contain correspondence from Committee Chairman, Senator Frank Church, Marshall, Church and Clague. (HLM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

RETIREMENT, WORK, AND LIFELONG LEARNING

ED173402

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

PART 2—WASHINGTON, D.C.

JULY 18, 1978

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

CG013607

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE
86-111 WASHINGTON : 1979

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

SPECIAL COMMITTEE ON AGING

FRANK CHURCH, Idaho, *Chairman*

EDMUND S. MUSKIE, Maine
LAWTON CHILES, Florida
JOHN GLENN, Ohio
JOHN MELCHER, Montana
DENNIS DeCONCINI, Arizona

PETE V. DOMENICI, New Mexico
EDWARD W. BROOKE, Massachusetts
CHARLES H. PERCY, Illinois

WILLIAM E. ORIOL, *Staff Director*
DAVID A. AFFELDT, *Chief Counsel*
LETITIA CHAMBERS, *Minority Staff Director*
GARRY V. WENSKE, *Assistant Counsel for Operations*

Retirement, Work, and Lifelong Learning:
Part 1. Washington, D.C., July 17, 1978.
Part 2. Washington, D.C., July 18, 1978.
Part 3. Washington, D.C., July 19, 1978.
Part 4. Washington, D.C., September 8, 1978.

CONTENTS

	Page
Opening statement by Senator Frank Church, chairman	111
Statement by Senator Charles H. Percy	118
Statement by Senator Lawton Chiles	120

CHRONOLOGICAL LIST OF WITNESSES

Marshall, Hon. F. Ray, Secretary, Department of Labor; accompanied by Peter Henle, Deputy Assistant Secretary	112
Clague, Ewan, Laconia, N.H., consultant, and former Commissioner, U.S. Bureau of Labor Statistics	135

APPENDIX

Correspondence relating to hearing:	
Item 1. Letter and enclosure from Senator Frank Church, to Hon. F. Ray Marshall, Secretary, Department of Labor, dated July 31, 1978	153
Item 2. Letter and enclosures from Hon. F. Ray Marshall, Secretary, Department of Labor, to Senator Frank Church, dated September 11, 1978	154
Item 3. Letter and enclosure from Senator Frank Church, to Ewan Clague, Laconia, N.H., consultant, and former Commissioner, Bureau of Labor Statistics, dated July 31, 1978	168
Item 4. Letter and enclosure from Ewan Clague, Laconia, N.H., consultant, and former Commissioner, Bureau of Labor Statistics, to Senator Frank Church, dated September 5, 1978	168

MAJ8

RETIREMENT, WORK, AND LIFELONG LEARNING

TUESDAY, JULY 18, 1978

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 6226, Dirksen Senate Office Building, Hon. Frank Church (chairman) presiding.

Present: Senators Church, Chiles, and Percy.

Also present: William E. Oriol, staff director; David A. Affeldt, chief counsel; Garry V. Wenske, assistant counsel for operations; Letitia Chambers, minority staff director; David A. Rust, Tony Arroyos, and Jeffrey R. Lewis, minority professional staff members; Marjorie J. Finney, correspondence assistant; and Madonna S. Pettit, research assistant.

OPENING STATEMENT BY SENATOR FRANK CHURCH, CHAIRMAN

Senator CHURCH. The hearing will please come to order.

My statement will be brief this morning because I judge by yesterday's session we will have much to talk about today, with both a Cabinet member and a highly informed expert on our witness list. But I would like to point out that yesterday's testimony and the questioning provided a good foundation for what may be the primary point to be discussed this morning. And that question is: What more should the United States be doing to promote retention of older persons in the labor force, as a matter of their own choice, instead of retiring them, often without choice?

Yesterday, we heard compelling reasons for questioning the current trend to earlier and earlier retirement:

No. 1, it flies in the face of clearly foreseeable demographic changes, including a rising proportion of older persons at the same time that the percentage of younger persons in the work force is expected to decline.

No. 2, some of the sharpest growth will be among the very old, especially those 80 or over. Both Secretary Califano and Dr. Harold Sheppard emphasized this point yesterday, and Dr. Sheppard said that there will be 8 million persons over 80 by the year 2,000, or about 1.7 million more than had been projected as late as 1971.

Will even a four-generational family be able to provide support services to the very elderly of the year 2025? After all, if current trends hold, the very old persons of that period will have fewer offspring to help care for them.

And, unless the inflation is somehow checked, won't more workers opt against early retirement because of their own individual realization that retirement income is far less adjustable to rising prices than is work income?

And so, if early retirement is under increasing scrutiny and concern, what do we do to answer the question raised earlier? How do we keep older workers working after we have been so profligate with their talents over the decades?

Secretary Marshall, I am glad that committee discussions with your Department indicate that you plan to grapple with that issue, among others, this morning.

I would like to close with two questions.

The new "Employment and Training Report" of the President, issued annually as required by the CETA—Comprehensive Employment and Training Act of 1973—has a chapter on older workers. At one point, page 98, the report says that the senior community service employment program funded through the Older Americans Act but administered by the Department of Labor, offered part-time work to 37,400 economically disadvantaged persons aged 55 and over. That number has gone up to more than 47,000 at this time. We would like to know if you, yourself, are satisfied with the growth of this particular program.

Second, the recent "Age Discrimination Report," together with information received from the committee from time to time, asserts that directors of general manpower projects, such as CETA, often say that they do not have to serve older workers because, after all, there is title IX, a categorical program for that age group.

Now the committee has been told that there has been some upgrading of older worker participation in CETA, but we would like to have your view with respects to this as well.

Mr. Secretary, I ask these questions now in the hopes that you may deal with them as you wish during the presentation of your testimony this morning.

We welcome you, Mr. Secretary, and I invite you to proceed.

STATEMENT OF HON. F. RAY MARSHALL, SECRETARY, DEPARTMENT OF LABOR, ACCOMPANIED BY PETER HENLE, DEPUTY ASSISTANT SECRETARY

Secretary MARSHALL. Thank you, Mr. Chairman.

I am pleased to have this opportunity to present to you my testimony on retirement issues. The Employee Retirement Income Security Act, which is designed to protect private pension funds so that they will be available for workers when they reach retirement age; and the Age Discrimination in Employment Act, which is designed to prevent discrimination against workers for reasons unrelated to their ability, that is, discrimination because of age.

That act also requires that we attempt to help older workers meet the employment problems they face and to see employers develop procedures to make better use of older workers. We are, in addition, responsible for the Comprehensive Employment and Training Act, which provides job opportunities for older Americans.

Retirement Trends

I think that some of the basic trends that influence our ability to carry out our mandate have been presented to you, but let me highlight a few of them. One is that Americans are retiring at earlier ages. In 1950, 46 percent of men aged 65 and over were in the labor force. By 1978, this figure had declined to 20 percent. There have been less dramatic trends for women, but the figures are similar. There are also similar declines for workers age 55 to 65.

A major reason for this tendency for Americans to retire at earlier ages is that the social security and private retirement systems provide greater opportunity for people to retire. The Social Security Act now makes it possible for people to elect benefits at 62. The evidence indicates that the benefits available under the social security system have improved from $138 in 1960 in constant 1975 dollars, to $207 in 1975. In 1960, 85 percent of the people eligible for social security received benefits. By 1976, this number had increased to 95 percent.

At the same time, there has been a rapid expansion of private pension plans. In 1960, there were about 1.8 million beneficiaries in these programs and they received $1.7 billion. By 1975, there were 7 million beneficiaries and these beneficiaries received $14.8 billion. Right now, just about one-half of all private wage and salary workers in the American work force participate in retirement plans.

Another significant part of the trend is that a larger and larger number of people retire and participate in social security plus some other retirement plan. Social Security Administration data show that in 1977, 30 percent of married couples and 15 percent of nonmarried persons receiving social security retirement benefits. The figures are higher for those just entering retirement, with 40 percent of the couples and 25 percent of individuals participating in social security also receive payments under some other plan.

Persistence of Poverty

I think it is fair to say that with social security, and with the expansion of private pension plans, older Americans today are much more fortunate than their predecessors. They are retiring with greater financial security than ever before. However, too many Americans past 60 are not financially secure. While we have done much to eliminate poverty among older people, it is still a serious problem in terms of the number of people involved, even if less dramatic, in terms of percentages of people involved.

Your interpretation of this particular problem depends upon the estimate that you use. The official poverty level is about $2,700 for one person over 65, and $3,400 for an aged couple in 1976. Using this formula, the number of older persons with incomes below the level may be as low as 1 million, or less than 5 percent of persons over 65. The BLS family budgets provide an alternative measure of living costs for retired persons in urban areas. In 1976, the lower level budget was about $4,700 for a retired couple—nearly 40 percent higher than the poverty standard. Using this budget, the number of older Americans falling below this level may be as high as 3 million, or almost 15 percent of those persons over 65.

It is important to ask who are these people who are below the BLS lower level budget, and they tend to fall in two categories. One consists of people with no private pension plans. The other includes those receiving benefits from private pension plans which are not protected against inflation so that the longer they are retired the less valuable their pension plans become.

There is a correlation between wage and salary levels and participation in private pension plans so that workers with very low levels of income are less likely to have coverage than workers with higher levels.

The second category consists of those people who are forced to retire from the work force because of various personal or physical conditions. We are, therefore, left with a challenging problem of providing for active participation of older workers in the work force well into their sixties and beyond. It seems to me that one of the most important challenges that we face is not just to make workers secure in their retirement but to make it possible for them to have fuller employment at higher earnings if they want to continue.

Changes in the ADEA

Now there are a number of laws and programs designed to help older Americans, and I would like to mention just a few of these. One that we are responsible for is the Age Discrimination in Employment Act, which is a major tool for assuring older workers of their job rights.

Now the purposes of ADEA are threefold: (1) To promote employment of older persons based on their ability rather than age; (2) to prohibit arbitrary age discrimination in employment; and (3) to help employers and workers find ways of meeting problems arising from the impact of age on employment.

As you know, under the ADEA amendments enacted in April of this year, protection under the act has been extended by barring mandatory retirement in private industry before age 70, beginning January 1, 1979. Under the original act, employees in private industry could be mandatorily retired at age 65. However, as of September 30 of this year, ADEA coverage for Federal employees will apply without an upper age limit, and an age 70 mandatory retirement requirement will be repealed. The enforcement provisions of the act are also strengthened by the 1978 amendments. Work opportunities for older workers will be expanded greatly by the amendments, especially for those who would have faced mandatory retirement at age 65 and desire to continue working.

The Department of Labor is also required to examine the effect of raising the upper age limit in the act from age 65 to 70 with a view to determining the feasibility of raising the limit further or eliminating it in the future. We are required to report to the President and the Congress on this study on an interim basis by January 1, 1981, and to submit a final report by January 1, 1982.

An Aging Population

The issues of income adequacy and employment options for older Americans will become more acute as older persons become a larger and larger share of the total population.

It is important to note that this process will take place gradually over the next three-quarters of a century. Currently, the 25 million men and women over 65 make up about 11 percent of the population. By the year 2000, their numbers will increase to 33 million—still only 12 percent of the projected total—however, by 2035, with the aging of the "baby boom" cohort, there will be almost 58 million persons over 65, or 19 percent of the projected total population.

This growth will have far-reaching effects on society and social institutions. It will place a tremendous burden on the social security system and therefore on the younger working population. In strengthening the financing of the social security system in 1977, Congress mandated an increase in the payroll tax from 12.1 in 1978 to 15.3 percent in 1990. Given current actuarial projections, the tax rate will have to be increased by an additional 4 percentage points by 2035 in order to maintain the system's solvency and projected benefit levels. Our advance knowledge, of course, affords us time for considering other approaches. The administrators of public employee pensions supported by tax revenues, and of some underfunded private plans, must come to grips with these same questions.

The impact of these changes will be mitigated by two factors. One is the increased participation of women in the labor force resulting in increased revenues for the social security and public treasuries. The second is the relative decline in the youth population, which may result in slower growth in school and other child-oriented expenditures. One way of expressing these factors is through the so-called "dependency ratio," which denotes the average number of nonworkers who must be supported by each worker. This ratio is expected to decline from its current level of about 80 children and aged persons per 100 adults between 20 and 64, to only 70 per 100 by the start of the next century. At that point, though, it will begin to rise once more, passing the 80 per 100 mark again by about 2025. The extent to which these factors will mitigate the problem posed by an aging population cannot be accurately predicted at this time.

These trends, however, lend greater urgency to the necessity of expanding the employment options of the aged. It will be increasingly difficult for all older Americans to experience a comfortable retirement if we depend primarily on "transfer" systems supported by smaller cohorts of younger workers. And yet, the prospect of an expanding older population also has its optimistic aspects. As the current low birthrate makes itself felt in the labor markets of the future, the skills and contributions of older workers will be increasingly sought. Employers will find themselves competing for the services of older workers, possibly bidding up wages and accommodating their desires for more flexible work schedules. As employers take a positive approach in which they recognize the worth of their older employees, the ultimate result will be wider opportunities and more cooperative relations among different age groups.

Current DOL Efforts

The Department of Labor is actively seeking to meet the present and future needs of older Americans. Our current activities reflect two major concerns.

36-111—79——2

The Department's first major concern is insuring that older Americans will have the option of continued employment.

While discrimination against older workers has not been eliminated during the 10 years since enactment of the Age Discrimination in Employment Act, much progress has been made and the Department is doing everything it can in order to be able to more accurately target programs to help older workers.

The Department of Labor has emphasized education activities, enforcement, and the development of a body of legal precedents. The act has helped older workers in terms of increased job opportunities as well as reemployment, on-the-job gains, and back wages. As a result of efforts we have made to strengthen our enforcement effort, a record $10 million in monetary compensation was found due to 1,943 individuals in the 40–65 group during fiscal year 1977.

We are now working to develop policies for the implementation of the 1978 amendments to the ADEA. While enforcement responsibility for the act's prohibitions against age discrimination will be transferred to the Equal Employment Opportunity Commission—EEOC—on July 1, 1978, we will continue to exert full enforcement efforts on this vital program pending the transfer.

Research under the act will continue to be the responsibility of the Department of Labor. We currently have an unsolicited proposal under consideration that would implement the study requriement under section 5 of the act concerning the upper age limit. We are determined to have the study underway as expeditiously as possible.

We also have a continuing responsibility under section 3 of the ADEA to undertake and promote research with a view to reducing barriers to the employment of older persons and to disseminate the findings of studies and other materials to promote the employment of older persons. One area that may prove worthy of future research is the option of flexible work arrangements for older employees. Older workers should have the chance to "ease into" retirement—to continue working at rewarding jobs on a part-time or part-year basis, if they prefer. Employers ideally should provide a full menu of options for the older employee: Continued full-time work, regular part time, temporary callback, and consulting relationship. Community work is yet another area in which the talents of older workers can be readily utilized.

We are also involved more directly in providing employment opportunities to older Americans. For example, we are charged with the administration of title IX of the Older Americans Act—senior community service employment program. Under this program, meaningful part-time employment is provided to low income, older workers. Their work touches on a variety of community activities and functions. In addition, participants receive substantial supportive services. Title IX grants are expected to provide 47,500 job opportunities to older workers during the program year starting July 1, 1978.

In addition, title I, II, and VI of CETA provide valuable public service employment, training, and comprehensive services to older Americans. CETA is estimated to have helped more than 98,000 workers older than age 55 during 1977. Some of the most successful projects have involved senior citizens rendering services to other senior citizens.

Mr. Chairman, I want to assure you that the problems of older Americans are of the utmost concern to the Department of Labor. We are devoting an ever increasing amount of effort to addressing these matters. Enforcement of the age discrimination provisions and programs offering jobs and training to older workers provide substance to this concern.

Second, the Department is concerned with insuring a comfortable retirement for those older persons who have chosen to leave the labor force.

This is partly in connection with our concern for the Old Age Survivor Disability and Health Insurance Trust Fund and their security but also in connection with the private pension plans under the Employee Retirement Income Security Act of 1974. Through aggressively enforcing our mandate under the Employee Retirement Income Security Act, we are doing every thing we can in the Department to assure that when workers who are eligible for these pensions get ready to retire, the funds are likely to be there.

The Department is also involved with enforcing the provisions of the Employee Retirement Income Security Act of 1974—ERISA. The enactment of ERISA was based on the realization that a pension plan is not a "gift" from the employer, but is a part of the total wage package for which the employee bargains. Under ERISA, millions of workers have a vested right to a pension where no such right existed before. Furthermore, all workers covered by private pension plans are protected against careless or unscrupulos administration, and those who participate in defined benefit plans have their vested benefits guaranteed by the Pension Benefit Guaranty Corporation.

As part of its ERISA mandate, the Department is particularly interested in eliminating abuses in the private pension system. Congressional hearings preceding ERISA uncovered many instances where individuals who had expected to retire comfortably with dignity, found they would not receive the benefits they believed they had earned. Among the major reasons of this were inadequate funding and misunderstandings about expected benefits. The Department is focusing its current efforts on eliminating mismanagement and misunderstandings by a combination of enforcement activities and public education efforts. We feel that, due in part to our efforts, plan participants have a better understanding of their rights under their plans and the act. Furthermore, the Department's active enforcement program is working toward insuring that assets in private pension plans are used for the exclusive benefit of all plan participants and beneficiaries.

Another aspect of the Department's work in this area is the variety of public service employment programs providing services to the elderly community, primarily under title VI of the Comprehensive Employment and Training Act. Examples of the many innovative projects supported under this title range from a Wisconsin program aimed at protecting the elderly from unscrupulous insurance sales tactics to a Washington effort helping senior citizens apply for exemptions from utility surcharges.

We also have a number of programs under which CETA workers provide home health care to older workers. We think that these are some of the most effective of the CETA programs that we have.

RECOMMENDATIONS

The Department will continue to work jointly with Congress in the future to protect and expand the rights of older Americans.

We would like to suggest several areas of primary concern:

First: The entire income support system for the elderly should be reviewed. The role of the private pension system and its relation to social security should be studied with the aim of providing more adequate income support to the retired. Special attention must be given to the effects of inflation on private pension benefits. The soundness of the Government financed programs also should be carefully examined. These are some of the issues that will be addressed by the recently announced President's Commission on Pension Policy, which will undertake a comprehensive review of retirement, survivor, and disability programs existing in the United States.

Second: As a major employer, the Federal Government should become a leader in offering flexible work schedules and wider career options for older workers. The Department supports the concept of legislation recently passed by the House and pending before the Senate which authorizes an experiment with flextime work opportunities within the Government. We also endorse wider opportunities for part-time employment in the Federal Government.

Third: Increasing attention should be given to encouraging private employers to provide a wider selection of work arrangements for older workers. This committee may wish to consider further hearings to publicize efforts by private employers already offering such arrangements, thus encouraging others to follow this example.

Mr. Chairman, the Department of Labor appreciates this chance to demonstrate its concern with the problems and opportunities facing our older citizens. We look forward to working closely with Congress on the issues discussed today.

Thank you.

Senator CHURCH. Thank you very much, Mr. Secretary.

I would like to ask Senator Percy to ask whatever questions he has at this time as he has another engagement.

STATEMENT BY SENATOR CHARLES H. PERCY

Senator PERCY. Thank you, Senator Church. Senator Chiles and I have to go to a markup, so I will be very brief.

We appreciate very much indeed your being here Secretary Marshall, and I appreciate your consideration, Mr. Chairman.

The semiretirement phase is one of the toughest problems now facing us, and I think we are less prepared to move into this area than almost any other now being considered by the Congress. The work of your Department is essential in that regard.

I would appreciate your comments on the generally noted fact that people are ill-prepared to retire. Those who are best prepared often have planned and take early retirement. They have thought about it, they have discussed it with their families, they have made a plan for their life, and they are generally pretty well organized people anyway—we almost wish they would not retire so soon. They are ready for it because they have built-up a lifetime of activities outside the structure of work.

Those who really depend on their work—some place to go to, some people to be with, some place to some back from—are the ones least likely to have planned their life as well.

Phased-In Retirement

My own industrial experience shows that when we introduced a program of compulsory retirement at age 68 we did it on a phased in basis. We required beginning at age 65 a paid vacation plan plus an extra month the next year, plus 2 months the next year, plus 3 months the next year, so they phased out with a program of 15 weeks of counseling with the families 5 years prior to retirement, on various phases of adjustment to the retirement.

I have lost track really as to whether those programs our company started in Chicago, and I think 15 to 16 other companies followed us later, has become any kind of move, whether industry looks upon its obligation to help psychologically prepare people for their retirement and whether that phased out program has even been tried in the Department of Labor itself. I wonder if you would advise me either now or subsequently, for the record, as to whether that aspect of retirement is being looked at and being given serious consideration by the Department as well as by industry and labor unions themselves. I think UAW has done an outstanding job in helping people retire.

Secretary Marshall. Well, I think that it is a problem, Senator Percy, and it is correlated with the other one that I mentioned. That is, many of the people who are not prepared for retirement, in terms of having educated themselves, are the same people who have the least financial support when they get ready to retire. The people who plan for retirement seem to be also those people who have more financial security. Lower income workers are less likely to do that.

I think that we ought to first try to do everything we can to provide for steadier income and employment for people and to insure that they will be able to work. I think the prohibition of mandatory retirements will be beneficial in that regard, but we also need to help people prepare psychologically for retirement.

Let me ask Mr. Henle to comment on what we know about the programs that have been undertaken by various people.

Mr. Henle. Well, we do not have an inventory of such programs, but we do have a couple of examples that have come to our attention in your own area. Continental Illinois Bank has a special program which affects about 850 part-timers out of a total work force of 8,500. Half of these part-timers are over 65. The bank has been using part-timers successfully for over a decade.

Another example we have been given information about is Northrop out in California. This is an arrangement for about 300 retirees, including machinists and accountants, during peak work periods. They can be called back to work for up to 60 days. So it is those kinds of arrangements that we would like to promote and see given more publicity to encourage others to follow.

Senator Percy. One last item that we also discussed with Secretary Califano. I would hope that the Department of Labor could address itself to the problem of so many people 65 and over who are disillusioned with medicare and medicaid because they have been led to be-

lieve that these two cover their medical expenses when really they cover less than half of the patients' costs—43 percent is the last figure I saw. This is also true of social security. How much of that is supposed to be anything other than a supplement for their own retirement plans, for their own savings accrued for purposes of retirement?

I think we all need to do a better job of destroying the impression that older people can rely upon social security because we just can't keep raising rates up fast enough. We have to establish a ceiling above which we cannot raise the rates.

Thank you very much indeed, Mr. Chairman.

Senator CHURCH. Senator Chiles.

Senator CHILES. Mr. Chairman, I hate to impinge on your time, but if I could ask a couple questions.

Senator CHURCH. Feel free. Ask whatever you wish.

STATEMENT BY SENATOR LAWTON CHILES

Senator CHILES. Mr. Secretary, I just had an opportunity to see this publication entitled "Senior Aides," which describes the program that is being funded through your Department, with the NCSC. We have six of those projects funded in Florida, and as I have gone around the State, I see very clearly the enthusiasm that an older person has for this work opportunity and the kind of fulfillment and justification that they get from that. I notice the senior aides program, the green thumb and the foster grandparent programs, always seem to have complete enthusiasm from those people that are participating in the program, those that are recipients of the service and the people in the community. I just don't find anybody knocking those particular programs.

I am always hearing people that are criticizing this or that, but I never hear any criticism of these programs, and where I find those programs, I find a tremendous enthusiasm in the community by the people who are participating. I see that we have a lady that was cited for setting up work through that senior aide program at Fort Myers, Edith Obery. She did an outstanding job.

VALUE OF "SENIOR AIDES"

It looks to me that this is one of the most attractive options that we have. We generally, I think, are getting more for our money. We pay these people part-time salaries for their services. They are very satisfied with that, they are looking for part-time income. I don't know of a better return that we are getting for our dollar, and I just certainly hope that the Department would continue the broadening of those programs. I think they have tremendous support in the Congress, too.

Secretary MARSHALL. I agree, Senator Chiles. I have worked in those programs myself, and I think that it is a very good program from all perspectives, and I think that it is the next best thing that can be done for older people. We can assist people to stay employed and thus keep them in the economy.

Senator CHILES. Many of these people don't want that full-time job. What I find is that a lot of these elderly people are women, for example, and they are only looking for part-time work. They will

quickly tell you that with their age or other demands on their time, they are really looking for some fulfilling hours and they are not looking for full-time employment. I find the same thing with many men citing that.

Secretary MARSHALL. I think that is right. We have the same experience. I think we can do a lot more with part-time work in the private sector. Certainly, these programs ought to be available. They are useful from the standpoint of the work that gets done, because the participants do things that the society needs. These jobs are useful to the people that are doing the work because they get a sense of fulfillment, participation, and accomplishment. I have had people tell me they would work in the program even if we didn't pay them.

Senator CHILES. Well, I find that to be true. In fact, I find many of them say, "We work a lot more hours than the hours we are paid for." I also find in those programs where there are a few senior aides or green thumb, there are others in the program that are pure volunteers and will almost tell you: "I don't really have to have the money. I don't need the money, I want the fulfillment of the program." So it also seems to me that it attracts a greater number of participants because you have that program and many of them are not being paid, they just want to participate.

OLDER WORKERS UNDER CETA

I also wanted to bring to your attention the language in section 215 of the Senate committee's CETA bill. That particular language, based on language proposed by Senator Domenici and myself, provides for services for elderly workers under CETA.

Many of us feel that the older workers are currently underserved by CETA and I wanted to call that section to your attention, if it survives in the bill that comes out of the conference. I think, as you said in your statement, that the Department of Labor is giving the utmost attention the needs of our elderly and that this language would give you a statutory mandate to incorporate that as a part of CETA. I certainly hope you people will be able to follow that, if we can have that enacted as part of the reauthorization of CETA.

Secretary MARSHALL. Well, we think that we need the targeted programs like green thumb that you have mentioned, but we also need to encourage CETA to employ older workers. It now provides jobs for about 100,000 older workers in fiscal year 1977, and we think that—as the overall level of unemployment declines—the participation by older workers in the system should and probably will increase.

Senator CHILES. Thank you, Mr. Chairman.

Senator CHURCH. Thank you, Senator.

Now, Mr. Secretary, as I followed you in your testimony, some questions occurred to me, and I would like to go back to your testimony and ask them.

Secretary MARSHALL. All right.

QUESTIONS ON PRIVATE PENSIONS

Senator CHURCH. On page 3, you speak of private pension plans and you say, "By 1975, $14.8 billion were paid to 7 million beneficiaries of the private plans." Then you say, "An estimated 47 percent of

wage and salary workers in the private sector are currently participating in retirement plans." Well, if you divide $14.8 billion by 7 million beneficiaries——

Secretary MARSHALL. I see what you are moving toward, Mr. Chairman. That means that they participate in the sense that they are covered by the private pension plan, but it does not actually mean they are getting retirement benefits.

Senator CHURCH. I see, but that is not what it says. It says by 1975, $14.8 billion were paid to 7 million beneficiaries, so that money is actually paid to beneficiaries who are presently retired.

Secretary MARSHALL. Yes, sir.

Senator CHURCH. Now the other sentence. They are simply covered, but if you take the $14.8 billion and divide it by the 7 million beneficiaries, my computation comes out to about $175 a month average. When you consider that many of those private pension plans allow very generous pensions indeed for executives, that average of $175 a month would suggest that the big majority of beneficiaries under private pension plans may be getting even less, perhaps considerably less.

When you also consider that these plans typically make no provision for cost-of-living increases—that is, for the inflation—it clearly underscores the fact that the social security system is the main reliance of nearly everybody, doesn't it?

Secretary MARSHALL. Yes; and especially lower income workers.

Senator CHURCH. I think that the record should show that 7 out of 10 aged individual beneficiaries in this country, and one out of two elderly couple beneficiaries rely on social security for over half of their income. Do you have enough data to tell this committee whether private insurance programs are going to play an increasingly important role, they are going to be revised in ways that will make them better, or they are going to play a less important role—even less important than they play today looking to the future?

ROLE OF ERISA

Secretary MARSHALL. I think if we look to the future, there are a number of things that are fairly clear. One is that the passage of ERISA has greatly strengthened the funds. It has also caused a number of the funds to go out of existence, because if they are not actuarily sound they could not meet the requirements of ERISA. Many others cited poor economic conditions as the cause for their termination.

We have done everything we can to try to minimize the costs of meeting the requirements of ERISA. I think the pension funds in the future will therefore be sounder than they have been in the past and that when workers get ready to retire, they will have more security. They would tend to know that those funds have been protected as much as possible.

I think there will be greater reliance on private pension funds in the future than now. I think, though, that we have got a lot of work to do, from the public policy perspective, to look at the actuarial soundness of these programs. We are very much concerned about that in the Department of Labor because we are responsible for ERISA.

I am also chairman of the Board of the Pension Benefit Guaranty Corporation, which does assume responsibility for guaranteeing certain benefits. We need to look at the questions of unfunded liabilities of the pension funds, the economic impact of the funds, the relationship between the public and private pension funds. All these things we have under very careful scrutiny.

Senator CHURCH. Mr. Secretary, in that connection yesterday, Secretary Califano testified that the integrity of employer pension plans is open to serious question, and I quote now from his testimony. "In 1976, Federal pension plans had unfunded liabilities between $243 and $425 billion."

Now we are talking about Federal pensions. That would be the military and civil service, among others. Those are the principal ones.

Those are astonishing figures.

For State and local pension plans, the estimate is between $100 and $270 billion. The estimate for private plans is roughly $200 billion. Together, these unfunded liabilities may well exceed the national debt of more than $600 billion. Ten of the largest industrial corporations in America have unfunded pension liabilities equal to a third or more of their net worth; seven of them have unfunded liabilities which exceed the aggregate market value of the common stock.

When you read that statement you wonder if we are not just living in a soap bubble.

Secretary MARSHALL. Let me say I think it is important to make the distinction between the Government programs and private plans. Government programs are, to a significant degree, on a pay-as-you-go basis. They are not fully funded in the sense that they do not accumulate. The assumption is made that the Government will not default on its pension plans. I don't know if that is a valid assumption, but it is one that has been made.

A problem concerning the private pension plans is the degree to which these plans are fully funded. This is a very difficult area. We have just completed a special study of it. Using different actuarial methods, you can reach totally different conclusions about the size of unfunded liabilities.

There is no question that is a serious problem, but I think it requires very careful thought. It is easy to exaggerate it. It is easy to use some actuarial methods that make it look like the funds are not as sound as they really are in terms of their ability to pay off their obligations.

FUNDING RESPONSIBILITIES

We have initiated review of this problem of calculating funding responsibilities. We will be publishing in the Federal Register a proposal for calculating pension fund liability on a uniform and reliable basis. One of the reasons for the disagreement among people these days is because of different ways in making the calculations. So I conclude that, yes, underfunding is a serious problem. We do need to pay particular attention to the soundness of these funds as well as their overall economic impact on the society and the impact on the individua

Senator CHURCH. Under ERISA, you were charged with the responsibility of reviewing private pension programs and ascertaining whether or not they were sound. What happens in a given case if you determine that a pension plan is unsound, that it is unreliable, and will not, in all likelihood, pay out as promised?

36-111—79——3

Secretary MARSHALL. Well, what happens depends on the conclusion we reach as to why the fund is, or is not sound. Our primary responsibility under ERISA is to see that the fiduciary responsibilities are not violated by plan administrators, and in that capacity what we do——

Senator CHURCH. You mean that the money is not misappropriated?

Secretary MARSHALL. It is either misappropriated or you have not made wise investments, or you have not otherwise adequately protected the funds. We are responsible primarily for insuring the fiduciary provisions of ERISA. What we try to do once we discover a fiduciary breach is first to remove the funds from the control of the trustees or administrators responsible for the breach, and second, try through civil action, to seek restoration of the fund. Any criminal activity disclosed by our investigation is referred to the Justice Department for action.

Senator CHURCH. All of that has to do with mismanagement. My question relates to a fund that is structurally unsound, where the income is obviously insufficient to meet the obligation. Do you have anything to do with those cases?

Secretary MARSHALL. In those cases, the main responsibility is with IRS, and that the withdrawal of the fund's tax exemption. IRS can also levy an excise tax against an underfunded plan.

Senator CHURCH. Is that the only Government sanction?

Secretary MARSHALL. Those are the main sanctions. Now, of course, a really difficult question for the Government would be to determine whether or not those funds are actuarially sound.

Senator CHURCH. Do you know of any case where the IRS has actually taken that kind of action?

Secretary MARSHALL. I know that they have taken the first steps to withdraw the tax qualification of the Central States Fund, but have withheld pending the results of the current effort by both agencies to require the plan to meet ERISA and tax standards.

Let me see what Mr. Henle knows. Do you know of cases where the IRS has withdrawn tax exempt status because of unsoundness of the fund?

Mr. HENLE. No, they didn't take that action in the Central States case because of the unsoundness of the fund.

Secretary MARSHALL. That was in connection with violations of fiduciary responsibility. We can find the answer to that. I don't know what action IRS might have taken.

Senator CHURCH. You made an interesting statement a few minutes ago, Mr. Secretary. You said even though Government pensions may be insufficiently funded, one assumes that the Government will honor the obligation by appropriating sufficient money to meet the need on a year-to-year basis, and the pension obligation will be honored.

Granting that assumption, certainly Congress has undertaken to safeguard the social security system by the action taken last year. Granted that assumption may be valid where Government needs are concerned. There is, however, no such assumption that can really be made where private companies are concerned.

Secretary MARSHALL. That is right except the safeguards we do have under ERISA.

Senator CHURCH. Are those safeguards related only to management?

Secretary MARSHALL. No, ERISA contains minimum funding requirements. The law also provides safeguards if the fund is termi-

nated. If a single employer defined benefit plan terminates now, then the Pension Benefit Guaranty Corporation has responsibility to pay the beneficiaries, and we have done that. That is not true of the multiemployer funds now because their terminations are not automatically covered. The Pension Benefit Guaranty Corporation can elect to cover multiemployer plans, but coverage will not be automatic until July of 1979.

Mr. Henle would like to add a comment.

Senator CHURCH. Yes.

Mr. HENLE. Mr. Chairman, the process of providing accounting or actuarial evaluation of a private pension plan is not axiomatic.

Senator CHURCH. I know that.

Mr. HENLE. There is less disagreement about evaluating vested benefits. I am sure you understand that vested benefits are the benefits that would be nonforfeitable as of a given moment of time if that firm, say, suddenly went bankrupt. Now the status, as I understand it, with regard to vested benefits, is that the private pension system is really in pretty good shape and most funds have cash assets on hand that equal or exceed 80 to 90 percent of the value of vested benefits.

When you move from valuing vested liabilities or vested benefits into the realm of the unvested, then you are making assumptions about what proportion of your present work force will receive benefits or at least will stay until they become eligible for vested benefit. You have to make assumptions regarding the rate of return you are going to receive for your assets and your investments. You have to consider the turnover among the employees and while you don't really get into the realm of make-believe, you certainly get to the point where some very arbitrary assumptions have to be made. That is why the Department is moving to suggest or require some uniform methods for actuaries to use in this valuation.

MULTIEMPLOYER BENEFIT PLANS

Senator CHURCH. In September 1977, PBGC's report raised major concern over the unfunded liabilities of multiemployer plans. The Congress deferred mandatory coverage until July 1, 1979, and ordered the PBGC to prepare a comprehensive report on the situation. That report, just released, found that about 160 of the 2,000 multiemployer plans were experiencing financial difficulties serious enough to threaten solvency within the next decade. All of these plans had pension benefits totaling $8.3 billion for 1.3 million workers who would be affected. The PBGC made no response to the Congress concerning this situation. What do we do about this?

Secretary MARSHALL. There are a lot of things. What the report attempted to do was to explore the options rather than make the recommendations. We thought it was important to have a debate to look at the present termination requirements to see if they really made sense. Sometimes the present termination requirements make it difficult for the firm to continue to be solvent and to pay the pensions. It might be better to change the 30-percent liability rule and to continue to collect as much income as the firm can pay.

We will obviously have to pay some attention to the premiums if we are going to base this on an insurance principle. There are a lot of things that can be done, both with respect to the premiums paid

for the termination insurance, and to the procedures used for termination.

A variety of alternatives has been explored in the PBGC report, all designed with the idea of doing whatever can be done to assure that the workers get the pensions rather than simply carry out the letter of the law, which might not be as sound a way to proceed as others that are outlined in that report.

Senator CHURCH. Does the insurance system presently cover single employee plans?

Secretary MARSHALL. Yes.

Senator CHURCH. What has been your experience to date? Have you collected premiums for this?

Secretary MARSHALL. Yes.

Senator CHURCH. How long has this insurance been in effect?

Secretary MARSHALL. Since the enactment of ERISA, September 1974.

Senator CHURCH. You have not had sufficient experience then to know whether you are actually administering this program on a sound insurance basis?

Secretary MARSHALL. The impression that I get from studying the issue is that with respect to single employers we have very little problem. The real problem is with the multiemployer plan and the reason is that the assumption that was made initially that in the development of ERISA multiemployer plans were more financially sound than single employer plans. The assumption was made because of the feeling that the large multiemployer plans like those in the coal mining industry and construction would be less of a problem.

Actually, it has turned out to be the reverse. Because declining industries and, to some extent, because of the procedures adopted for the multiemployer plans some employers will desire to withdraw from the plan and others will choose not to join the plan because they would have to assume that liability of other employers which were unable to fund their share of vested benefits. Those are the kinds of things that we think we may have to change in order to deal effectively with the multiemployer plans.

SINGLE EMPLOYER BENEFIT PLANS

Senator CHURCH. Since we cannot solve the multiemployer plan this morning—except to indicate the problems—let's go back to the single employer plans. How many of these single employers come under the program and can you tell me whether or not it is a voluntary matter or whether it is something else.

Secretary MARSHALL. I think we have some statistics somewhere. We will have to find those figures for you.

[Subsequent to the hearing, Secretary Marshall supplied the following information:]

The Employee Retirement Income Security Act of 1974 (ERISA) covers only employees in the private sector who are participants in welfare benefit plans and pension benefit plans. Total private sector employment is about 80 million workers. About 45 million are covered by welfare benefit plans; 39 million are covered by pension benefit plans, the subject of your committee's questions.

ERISA draws a distinction between two categories of pension plans. One is an individual account plan. In an individual account plan, each participant has

an individual account to which employer contributions are allocated. On retirement, a participant's benefit is based solely on the amount contributed to his or her account and any income, expense, gains and losses, and any forfeitures of other participants' accounts that may be allocated to the participant's account. Thus, prior to retirement, no particular level of benefits is promised. The most common type of individual account plan is a deferred profit-sharing arrangement, where a certain percentage of the employer's profits is allocated among participants' accounts. Another type of individual account plan is a money purchase plan in which the employer makes a specified level of contributions to the account of each employee.

The second category of pension plan is a defined benefit plan. Any pension plan which is not an individual account plan—i.e., any pension plan that does not base benefits solely on the balance in the participant's account of retirement—is a defined benefit plan. Thus, any plan which promises a specified level of benefits at retirement is a defined benefit plan.

Under ERISA, all pension plans, whether individual account or defined benefit, are generally subject to reporting and disclosure and fiduciary responsibility provisions and must meet certain participation, vesting and benefit accrual standards. In addition, defined benefit plans and money purchase individual account plans are subject to certain funding standards. Participants' benefits under defined benefit plans must be funded in advance of retirement in accordance with reasonable actuarial assumptions. These provisions are enforced by the Department of Labor and the Internal Revenue Service.

Single employer and multiemployer defined benefit plans must also pay insurance premiums to the Pension Benefit Guaranty Corporation (PBGC), which protects basic vested pension benefits in the event of plan termination. The PBGC currently insures some 80,000 defined benefit plans covering almost 33 million participants.

Because no specific level of benefits is promised by individual account plans, these plans are not covered by PBGC insurance. However, ERISA's sanctions against mismanagement of plan assets by fiduciaries, as well as for violations of the reporting and disclosure participating and vesting requirements do apply to these plans. Participants who believe that the conduct of any plan fiduciary or the operation of any plan provision violates ERISA, may notify the Labor Department for investigation of their complaint, or may bring an enforcement claim in U.S. Federal District Courts.

There are currently about 400,000 individual account plans covering 6 million participants which are subject to ERISA.

Senator CHURCH. Is it a voluntary proposition for companies to come within this insurance program or is it mandatory?

Secretary MARSHALL. It is mandatory if the plan is the defined benefit type, which is the most common.

Senator CHURCH. So, all of them presumably are participating.

Secretary MARSHALL. Multiemployer plans are required to report and to pay premiums, however, benefits are not automatically insured by PBGC.

Senator CHURCH. How many single employer private pension plans have failed since ERISA was enacted?

Secretary MARSHALL. I don't have that information immediately available. We can get it for you from the PBGC. We don't have it. The estimated figure is roughly 3,000, but we can get you the exact figures.

Senator CHURCH. The estimated figure for what?

Secretary MARSHALL For the private pension plans that have failed, single employer plans that have failed.

Senator CHURCH. In the last 3 years?

While you are supplying the committee with that figure I wish you would supply us with the number of employees that were affected.

Secretary MARSHALL. We can do that.

[Subsequent to the hearing, Secretary Marshall supplied the following information:]

Administrators of plans covered by ERISA's termination insurance provisions which intend to terminate must file a notice of termination with the PBGC. Since September 1974, approximately 20,000 insured plans with 450,000 participants have terminated.

PBGC attempts to determine the reasons for plan termination. Of the total number of plans that filed termination notices with PBGC from September 1974 through September 1977, 42 percent cited business-related reasons (adverse business conditions, change of ownership, liquidation, etc.) as the major reason. Another 8 percent claimed that the plan was becoming too costly. About 17 percent mentioned ERISA alone as the reason; 11 percent cited ERISA in combination with other factors. 23 percent cited "other" or no reason. Many plans citing ERISA as the cause for termination probably could not withstand the added costs of implementing ERISA's minimum participation, vesting, and funding standards.

Of the 20,000 plans which have terminated since September 1974, virtually all had sufficient assets to pay the benefits guaranteed by PBGC. Only about 500 did not have enough assets to pay that portion of promised benefits that are guaranteed by the PBGC. The PBGC has placed half of these plans under its trusteeship. About 22,000 workers and retirees are in these trusteed plans. The PBGC is already paying benefits to the retirees, and will pay benefits to the others when they reach retirement age.

Although multiemployer defined benefit plans are now required to pay premiums to PBGC, they will not be fully protected by PBGC insurance until July 1, 1979. The original act set the date of full coverage as January 1, 1978, but the effective date was delayed by Congress because of the financial difficulties being experienced by several large plans. PBGC may elect, at its discretion, to pay insurance benefits on behalf of multiemployed plans terminating before that date. PBGC has elected to cover benefits in four terminated multiemployer plans, in the millinery and milk industries.

When a failed plan comes under PBGC trusteeship, the retiree is not assured the same benefits as promised under the terms of the plan. Only basic pension benefits are guaranteed. Increases in the value of benefits are covered by insurance on a phased-in basis at the rate of 20 percent per year or $20 per month whichever is greater. Analyses by the PBGC show that, overall, about 85 percent to 90 percent of fully vested benefits have been guaranteed under terminated plans.

In addition, benefits under trusteed plans are limited under a formula based on social security benefit calculations. This ceiling on benefits is adjusted periodically and current stands at $1,005.68 per month for an annuity starting at age 65, with actuarial reductions for benefits payable at earlier ages. This limit is far higher than benefits paid under the average plan. Currently the average monthly check issued by PBGC is $110.

Sanctions can be imposed on a plan sponsor who fails to adequately fund a plan according to the requirements of ERISA. Two cases must be distinguished: a terminated plan, and an ongoing plan.

When a pension plan is terminated, the employer is liable to the PBGC for any insufficiency of plan assets as compared to the total value of the benefit guaranteed by PBGC, up to 30 percent of the employer's net worth. As noted above, only about 500 of the 20,000 terminated plans were insufficient, giving rise to liability under this provision. This employer liability serves both as a deterrent to termination of an underfunded plan and as a source of revenue for PBGC's insurance program.

In the case of an ongoing plan to which required contributions are not made, the Internal Revenue Service may invoke a tax of 5 percent of the accumulated funding deficiency for each tax year in which there is such a deficiency. The IRS can also revoke the tax-deductible status of contributions made by the employer to the plan. In appropriate cases the PBGC is empowered to seek a court order terminating an underfunded plan.

There have been reports in the press that the financial security of many firms is threatened by their unfunded pension liabilities. HEW Secretary Califano has claimed that total unfunded liabilities of private pension plans may exceed $200 billion. In the Department of Labor's opinion, these figures are overstated and misused. In addition, the quoted figures are calculated by pension fund actuaries using a variety of actuarial methods and assumptions regarding labor

turnover, future benefit increases, etc. Since these figures are not calculated on a consistent basis, any quoted aggregate amount is not a meaningful figure. This past January, the Department of Labor initiated a review of the methods used in calculating pension plan liabilities. We have completed that review and will soon issue in the Federal Register a proposal for calculating pension fund liabilities on a reliable, consistent basis.

Senator CHURCH. Have these failures been largely due to bankruptcies?

Secretary MARSHALL. I am not sure what all of the reasons are. I am sure that economic conditions have played a part.

Senator CHURCH. What is the Government's responsibility under the insurance program in the case of a failure?

Secretary MARSHALL. The PBGC takes an accounting of the remaining assets. In most cases, they have been sufficient to pay off vested obligations. If they are not, PBGC insurance pays benefits to those workers who had guaranteed benefits.

Senator CHURCH. For the balance of their lives?

Secretary MARSHALL. To assume largely the same benefits subject to certain limitations and an upward limit they would have had if they had retired under the plan.

Senator CHURCH. Is this program operating in the black right now?

Secretary MARSHALL. Yes; it is in the black right now. We can get you the exact numbers on that, too.

[Subsequent to the hearing, Secretary Marshall supplied the following information:]

ERISA requires PBGC to be self-supporting, and with the new premium enacted by Congress in December 1977, PBGC expects its termination insurance program for single employer plans to be in the black hereafter. PBGC further expects the new $2.60 premium to eliminate within the next 10 years the deficit it incurred earlier under this program. At the end of fiscal year 1977, the deficit amounted to about $95 million.

For multiemployer plans the situation is quite different. Technically, PBGC has neither a surplus nor a deficit at this time in the multiemployer fund. Because of statutory restrictions on PBGC's discretion to pay guaranteed benefits under multiemployer plans that terminate prior to July 1, 1979, PBGC cannot assume liabilities greater than the assets attributable to this discretionary period will cover. Relying on cash flow considerations, the Corporation has assumed responsibility for four terminated multiemployer plans whose participants' benefits may have to be sharply cut, at some time in the future, unless Congress revises ERISA in this regard.

I might add that PBGC recently sent to Congress a detailed report showing that unless the multiemployer provisions of ERISA are changed, preferably before July 1, 1979, the Corporation could be required to guarantee benefits under 160 multiemployer plans which are viewed as being in serious enough financial difficulty so as to cause their termination over the next 10 years. Were they all to terminate the PBGC liability could exceed $4.8 billion requiring a premium of nearly $80 per participant. The Corporation expects to recommend appropriate legislation on this matter in time to allow for prompt congressional action to avoid the financial crisis that mandatory multiemployer guarantees under the current law might precipitate.

Senator CHURCH. I can see some tremendous problems ahead if we do not look at this carefully. At least, our obligation and premium charge are insufficient to cover the cost. There would be no end to it.

Secretary MARSHALL. That is right. We see serious problems, too, and that is why we thought it was a good idea to defer the mandatory coverage of the multiemployer plans to July of 1978, to give the Congress and us a chance to examine the options, and look at what we know about the problem.

More Openings for Older Workers?

Senator Church. On page 10 of your statement, Mr. Secretary, you said it is a foreseeable situation that "Employers will find themselves competing for the services of older workers, possibly bidding up wages and accommodating their desires for more flexible work schedules." What makes you think so?

Secretary Marshall. A good bit depends, of course, on what happens to the economy. I think we will find a shortage of workers in the future because of demographic changes. There can be a shortage of workers and the consequence of that would be to place a greater premium on retaining older workers and using older workers in the work force. That is the content in which the statement is made. I think that you can almost put it down as a rule that when employers face labor shortages they tend to reverse some procedures that have been used when they have surpluses in labor.

Senator Church. How do you reconcile that assumption with the statements we often hear these days that the unemployment level in this country will not return to the 3 percent that we have known in times of full employment, but may remain somewhere between 4 and 5 percent? Even in relatively prosperous times, if that is so, then it is hard to reconcile an unemployment figure of that magnitude with your projections of a possible labor shortage.

Secretary Marshall. Well, I think that whatever unemployment figure we have, I believe it can be 4 percent or less without a great deal of strain on the economy. I believe we can get to 4-percent unemployment by 1983—I won't say easily because we have to do some things in order to get there—but I believe we can do it.

Now, much depends on what kind of public policy we continue to have to reduce unemployment below that. The so-called frictional level of unemployment, which is about 4 percent, would depend on such things as how long it takes people to move between jobs, and the labor market information system. At that level of unemployment, what you would have is relatively short unemployment. The only people who would be unemployed would be people who are between jobs.

The composition of unemployment as well as employment varies a good bit, even right now. The unemployment rate of people over 55 years of age, right now, is 3.1 percent. For males, it is 3 percent, having declined from 3.3 percent in December 1976; and for females, 3.1 percent, down from 4 percent. Now, as demographic shifts in the work force take place, such shifts are reflected in the unemployment figure of particular groups.

For example, one of the reasons that we have trouble with reducing the unemployment rate of young blacks, which is now 37.1 percent, is because between 1966 and 1976, the rate of increase in the working age population of blacks was about twice the rate for whites. There are other factors inpacting on that, but the demographic aspect of it is important.

So what I believe is likely to happen is that there will be an increasing shortage of workers in the so-called secondary labor market or in relatively low-wage jobs. In fact, I think you can see that there will eventually be a shortage of younger workers because of the declining birthrate, and that means that you have to place much greater reliance on older people.

Senator CHURCH. Somewhere, not in your testimony, but in the facts that have been brought to my attention by the committee staff, I find that in fiscal year 1977, persons 55 years or older accounted for only about 6 percent of all new enrollees in the CETA public service jobs program. Is that 6 percent right?

Secretary MARSHALL. That is approximately right. The CETA system, as you know, is a decentralized system where most decisions are made by local sponsors. They are supposed to make the determination, based on their work force, to put together the array of programs that will meet the labor market needs of their areas.

One of the things that we have found is that as a result of the decentralized decisionmaking in the CETA system, some reported national objectives have not been realized. The participation of young people went down when we went from the MDTA system to CETA, for example, and yet almost one-half the unemployed are under 24 years of age, so we believe there was a need for special youth programs because the CETA system would not accommodate young people. The CETA system is likely to pay primary attention to giving employment to the most employable people in the work force in order to reduce unemployment. It is not likely to favor young or older people without either supportive programs or special training.

We believe that because of the nature of that decisionmaking process, we need to try to target the CETA program more on structural problems, and many of these structural problems involve older people. That is what we are trying to do with the CETA reauthorization. We also believe that not only do we need to focus the CETA system more on older——

Senator CHURCH. How do you propose focusing both on older workers who are underrepresented and on young workers?

Secretary MARSHALL. Well, you can do it two ways. One is to have national programs which the system resists, like the older Americans program of green thumb. We have discretionary funds with which to establish national programs.

The other ways is to try to encourage the CETA prime sponsors. This can be done through requirements which are difficult because they meet resistance from the sponsors because their flexibility is reduced. In some cases of national objectives, however, we have had to do that and we have had to say that in order to, we want to give priority to these people, and we have tried to encourage the program to do that.

Another way to target a group is by adjusting the eligibility requirements. This could be done by limiting the income eligibility requirements, for example, and limiting the amount that can be paid by the CETA system. You can do more to assure that the low income people will participate in the system. You can also encourage greater use of community based organizations that deal primarily with older Americans, like the Farmers Union, or the age program, which will see to it that that part of the population gets served.

CETA "TARGETING"

Now, as cyclical unemployment declines, it becomes much more important for us to target the whole program toward those whose unemployment is not caused mainly by cyclical factors, and we have at-

36-111—79——4

tempted to do this in the CETA reauthorization bill which is currently before the Congress. We tried to accomplish this in the stimulus program which we introduced in May 1977, but in the reauthorization we tried to do some more. We believe we have been relatively successful in achieving the objective of bringing down the overall level of unemployment. We believe now that we need to concentrate more on these groups and individuals with special need.

Now, of course, among older workers generally, you don't have much of an unemployment problem, but you have a heavy unemployment problem and employment needs among particular groups of older workers, particularly the low-income older workers, and we think that is what we ought to concentrate our attention on. After all, 3.1 percent is not a relatively serious problem, and it will get lower. But there are older Americans with special problems, and our programs ought to try to reach them.

Senator CHURCH. The administration has had a remarkably good record that needs to be emphasized, I think, in bringing down unemployment in the last 2 years, from 7.8 percent to 5.7 percent.

Is the present 5.7 percent a seasonal phenomenon? I noticed that in the last month the unemployment rate dropped to 5.7 percent. I am wondering if we can hope, or expect, that that figure will not go up again.

Secretary MARSHALL. It might fluctuate. It is hard to say. I don't believe that the trend down, you know, from almost 8 percent to below 6 percent is any kind of statistical aberration. I know it is not, because the expansion of employment and because special groups like older people have been targeted by our programs. If you look at each one of these groups, you can see that in some cases their unemployment rate was moving in the opposite direction from the overall rate until our program went into operation. During the first half of 1977, for example, black unemployment was rising while white unemployment was going down. During the last half, black unemployment declined faster than the overall.

Senator CHURCH. The targeting seems to be working.

Secretary MARSHALL. It does seem to be working. I think there is no doubt that we have reduced the unemployment rate, and that there is a trend. Now it might be a statistical aberration. We might have calculated 5.7 percent when it was really 5.8 percent. That is within a range of error. I do not believe, however, that the trend is an aberration or seasonal. I believe we can, therefore, if we do the right things, continue to reduce that overall rate until we get 4 percent by 1983.

Senator CHURCH. Since we have actually managed to reduce the unemployment rate from 7.8 to 5.7 percent, is there any way to estimate what part of this represents government jobs furnished through CETA and what part of it represents private sector jobs?

Secretary MARSHALL. It is possible to make that estimate.

Senator CHURCH. Could you give us that estimate?

Secretary MARSHALL. Yes, we can supply it.

[Subsequent to the hearings, Secretary Marshall supplied the following information:]

In December 1976, the aggregate unemployment rate stood at 7.8 percent, out of a civilian labor force of 95.9 million workers. By June 1978, the rate had dropped to 5.7 percent out of a civilian labor force of just over 100 million.

During the same period, total employment (seasonally adjusted), as reported in household survey, rose by 6.5 million workers. The rise was concentrated almost entirely in the private sector. On a seasonally adjusted basis, the Federal Government reported only 22,000 more employees in June 1978 than in December 1976; State and local governments reported an increase of 525,000.

While the CETA program has undoubtedly been an important factor in the brightening employment picture, firm estimates of its impact are not yet available. Economists from the Departments of Labor, Commerce, and Treasury are currently participating in a Stimulus Evaluation Task Force which will analyze the effectiveness of the Economic Stimulus Appropriations Act of 1977. Estimates of the impact of Public Service Employment (PSE) jobs, under CETA titles II and VI, will be one aspect of their study. The task force expects to issue a report this fall.

Some preliminary estimates of PSE impact have already been made by Department of Labor researchers. At the time the Economic Stimulus Appropriations Act was enacted, in May 1977, there was 325,000 PSE positions under CETA; by March 1978, the target of 750,000 PSE positions was achieved. The average gross budget cost per year of a PSE position was estimated to be $8,600.

Many participants would have received Government transfers (unemployment compensation, food stamps, or AFDC payments) in the absence of the PSE program; savings or these programs were estimated by the Congressional Budget Office to be approximately $2,200 per participant. The resulting cost per participant is ($8,600—$2,200) or $6,400.

CETA expenditures also had an important expansionary effect through the conventional Government spending multipliers. The researchers estimated that multiplier effects resulted in the creation of one additional private sector job for every five net CETA jobs.

Additional benefits to society and to participants, of course, result when former PSE participants obtain private sector jobs with higher earnings than they would have obtained without their PSE experience, and when they pay income taxes on these higher earnings.

We would like to emphasize that these estimates, while based on sound methodology, remain sketchy and preliminary. This fall's report by the Stimulus Evaluation Task Force will contain more detailed findings on the role of public jobs programs in the economic recovery.

Senator CHURCH. Second, is it possible to give us some estimate of the net saving in tax dollars represented by the reduction of the unemployment rate from 7.8 percent to 5.7 percent?

Secretary MARSHALL. It is.

Senator CHURCH. Taking into account the cost of the program also, the reduction in unemployment compensation and other expenses associated in the unemployment area.

Secretary MARSHALL. It is possible. We have made estimates of those things and we would be glad to supply them.

[Subsequent to the hearing, Secretary Marshall supplied the following information:]

Unemployment reductions result in net tax savings through two mechanisms. First, expenditures are saved on various income maintenance programs (unemployment compensation, food stamps, etc.). Second, the newly employed contribute tax dollars to public treasuries.

If the June unemployment rate had stood at its December 1976 level of 7.8 percent, an additional 2.1 million persons (on a seasonally adjusted basis) would have been unemployed. Using the figure developed by the Congressional Buget Office for CETA jobs, we estimate the income maintenance savings at approximately $4.6 billion per year. Additional Federal tax revenues are estimated to be about $4 billion per year.

Secretary MARSHALL. Now, one distinction that has to be made is that the difference between declining unemployment and expanding employment. Because of the growth in the labor force during 1977, employment had to expand about 4.2 million in order to reduce unemployment by about 1.4 percent during that whole time. The reason for

that is that we generated lot more jobs and more people came to take those jobs, and therefore you had an increase in labor force participation rate as well as the declining unemployment.

Senator CHURCH. And you had the biggest graduating class, didn't, you, this past year?

Secretary MARSHALL. Yes.

Senator CHURCH. Moving into the labor market.

Secretary MARSHALL. Yes. Of course, much of the gain in employment was among young people, but the black teenage unemployment rate is one that continues to be very stubborn. It did decline, after reaching a peak of about 40 percent in the spring and summer of 1977, but still there is 37.1 percent now.

Senator CHURCH. I am told that the traditional unemployment rate during periods of full employment is about 4 percent. Do you share the view that some have expressed, that this traditional rate must be increased because of the added numbers of women who are entering the job market?

STRUCTURAL CHANGES IN WORK FORCE

Secretary MARSHALL. No; I believe that one of the reasons that people argue that the so-called normal full employment rate has increased to 4.8 percent, is because there are structural changes. More women and more young people are in the work force.

It seems to me they would reduce the figure. In other words, use counterstructural programs to offset the structural shifts and therefore lower the unemployment rate that you could have without inflation. I think it is entirely possible to do that.

A lot depends on what we do externally—what we do about immigration, and particularly the illegal immigration into the work force, what we do about international trade and energy problems, and what happens in other countries. We believe that you can get unemployment down to 4.8 percent without even using these structural programs, and to get it down by the remaining 0.8 percent by using the structural programs is not that hard. That is, it is relatively less difficult than what we have already done during the past 15 months. We will have to change the focus of the program, but I think it is entirely possible to do it.

Senator CHURCH. Thank you very much, Mr. Secretary, for your testimony this morning. It has been very helpful and we appreciate your coming.

Secretary MARSHALL. Thank you, Mr. Chairman.

Senator CHURCH. Senator Pete V. Domenici, the ranking minority member of our committee, cannot be with us today, He has, however, submitted a statement, which I will now insert into the record.

[The statement of Senator Domenici follows:]

STATEMENT OF SENATOR PETE V. DOMENICI

Mr. Chairman, yesterday we began what I hope will become a truly comprehensive series of hearings focusing attention on a wide range of issues relating to employment, retirement, and continuing education. Secretary Califano testified at length on the demographic changes which are taking place within our society, and the impact these changes are having on the delivery of services to our citizens.

Dr. Harold Sheppard gave us insight into the attitudes and expectations of working Americans. This is an area that must be explored in depth if these hearings are to have lasting value. If the Congress and the executive branch are to shape meaningful and effective public policies, we must know and understand those forces that motivate working Americans of all ages. Dr. Sheppard noted, in response to a question, the need for developing a consensus around any policy we might develop.

Today, we will receive testimony from Secretary Marshall and Ewan Clague, a former Commissioner of Labor Statistics. I hope that they can and will build upon what was said yesterday.

Mr. Chairman, we need to know much more about the attitudes and expectations of younger workers toward their jobs . . . their employers . . . retirement . . . social security . . . inflation . . . productivity . . . taxes . . . and so forth. The views of younger workers are vital because they must pay the taxes that fund the social services and income transfer programs that enable most older Americans to live in relative comfort and security. In addition, today's youthful workers can look forward to a longer, healthier lifespan—and potentially a longer working life. How long they remain in the work force, when they retire, and how well they prepare for their retirement will have a major impact on the next generation of public and private sector policymakers.

In the short run, we must gain a better understanding of the attitudes of older workers toward retirement. We have just extended the protection of the Age Discrimination in Employment Act of 1967 to include workers between the ages of 65 and 70. But at the same time, American workers have been retiring at an earlier age. We also need to know how middle age and older workers perceive the need for second career training and preretirement counseling.

I hope that Secretary Marshall and Commissioner Clague will address these issues during the course of their testimony and responses to questions from this committee.

Senator CHURCH. Our next witness is Ewan Clague, consultant, and former U.S. Commissioner of the Bureau of Labor Statistics. We are happy to have you, Mr. Clague. I wonder if you could submit your entire statement for the record and highlight it in your testimony.

STATEMENT OF EWAN CLAGUE, LACONIA, N.H., CONSULTANT, AND FORMER COMMISSIONER, U.S. BUREAU OF LABOR STATISTICS

Mr. CLAGUE. Mr. Chairman, I do welcome this opportunity to testify this morning at your hearing on "Retirement, Work, and Lifelong Learning." My prepared statement is too long to read, so I will summarize it for you.

Senator CHURCH. Please do so. Your full prepared statement will appear in the record.[1]

Mr. CLAGUE. In the introduction, I have pointed out that there are three basic programs which constitute the core of the problem. One is the Consumer Price Index, which is one of our most widely used statistics representing the U.S. economy. The second is productivity, which is the hopeful statistic that enables us to overcome rising costs. The third is old age retirement, which constitutes such a large proportion of our problem in the field of social wellbeing.

CONSUMER PRICE INDEX ROLE

With respect to the Consumer Price Index, it was my experience to guide it through the most rapid rise it ever had—from 1946 to 1948, in the postwar period. Then we did have in the Korean war a second

[1] See. p. 144.

upward movement of about 10 percent. But after that, from 1951 to 1965, the average rise was about 1.5 percent a year, which means about one-tenth of a percent a month. It was not a serious factor in our economy, and since productivity was higher and wages increased at least twice that fast, we had a rising standard of living.

That all changed after 1965. I have a table here which highlights that fact. The increase in the Consumer Price Index was 4.2 percent in 1968, then they went up to 5.9 percent in 1970. We next had the recession of 1970–71 that brought it down to 4.3 percent in 1971, and then President Nixon applied price controls in 1971–72, which brought it down to 3.3 percent. But when controls were taken off in 1973, it jumped about 6 percent by midsummer, then 11 percent in the next year. After that it retreated downward, due to the recession of 1975. The bottom was reached in 1976 and 5.8 percent, followed by 6.5 in 1977, up to 7 percent by May 1978, and the administration's committee has estimated 7.2 percent for the whole year 1978.

One of my interests has been projecting many of these economic series into the future. So I took the rate of increase from 1967, the base period of 100, and carried it through to 1978. I think we shall hit 200 sometime this fall. I hesitate to name the month.

Under that circumstance, I have raised the question: Suppose we continue this rate of inflation for the next 10 years or so, through 1990. The index that is now 200 would be 400, and the index to the year 2001 would be 800. In other words, it would be four times as high as it now is.

I cited a few prices to show the effect of that price rise, because most people notice only month to month, or even year to year, and don't take into account this annual 6 percent increase. It does not seem like much over 1 year. But when it accumulates over the decade, it becomes quite dramatic.

I chose as an example that a half gallon of milk in our home now cost 85 cents. This would be $3.40 in the year 2001. A $100 man's suit would cost $400. The Metro fare—I think I should have said busfare—here in Washington, which is now 50 cents during rush hours, would be $2 or even more, because income is not yet meeting expenses. I want to emphasize that this is not a forecast of where the economy is going, or the future price level. I am just trying to emphasize that this is the trend in which we are now operating.

My next point then was to turn to the problem of the——

Senator CHURCH. Before you move ahead, I notice that every sharp spurt in inflation is associated with war, with the aftermath of the war.

Mr. CLAGUE. Right.

Senator CHURCH. It makes me wonder why we are such a war prone country when we pay such a heavy economic price for it.

The Second World War, Korea, Vietnam—each with a dramatic spurt in inflation afterward.

Mr. CLAGUE. Yes. If I may comment on that, I think that even if we had had price controls during the war in Vietnam itself in 1965, say, to 1969, by holding prices down we might still have had in the early 1970's the same increases that we have had recently.

Senator CHURCH. The same thing.

Mr. CLAGUE. Yes.

Senator CHURCH. That is borne out by the fact that when President Nixon temporarily put on controls in 1972, and then in 1973, following his reelection, abandoned them, you had a very rapid spurt upward.

Mr. CLAGUE. One of the problems is that, when you keep a control like that temporarily, people observe it. The labor people and the employers went along, but when it was taken off, the explosion occurred.

Senator CHURCH. Making up for lost time.

PRODUCTIVITY PROBLEM

Mr. CLAGUE. Right. In the next area of wages and salaries, I am talking about the effect of wages and what they have to do with the rising prices. Of course, the cost of living is a basic wage increase that most all workers want to achieve in any case. Productivity works in favor of reducing prices; it means more output for the same amount of labor, and consequently works in the other direction.

This pattern was set in motion in 1948 by the famous contract in the automobile industry between General Motors—and the other firms—and Walter Reuther, president of the United Automobile Workers. They worked productivity into the contract, but they also worked in the Consumer Price Index, so that every quarter-year the wages would rise in accordance with the quarterly increase in the cost of living.

On the productivity side, I do want to emphasize that their decision was to use productivity on the basis of the national rise in productivity, not the increase in the auto industry. So I have a table here showing that in the auto industry itself, the productivity did exceed the national average, and therefore the employer's return here was not a factor in causing any increase in prices. The productivity of the auto industry is higher than the general average.

On the next page, I have a table showing the 1967 to 1978 rate of change in productivity in the private business sector. This was put out by the Bureau of Labor Statistics, the annual indexes. There are two points about this. One is that productivity is always best in business recovery, because that is the period when the employer who has fixed up his firm and put it in good shape can produce more output at lower cost. This accounts for the fact that in a very good progressive year, like 1968, we can get a 3.3 percent productivity gain, and in 1976, recuperating from the 1975 recession, we got 4.2 percent.

Senator CHURCH. May I ask you a question?

Mr. CLAGUE. Yes.

Senator CHURCH. In your productivity index on page 7, you show that using 1967 as a base year, productivity in the private business sector in this country has increased less than 20 percent—19.9 percent to be exact—between 1967 and 1978.

Mr. CLAGUE. That is right.

Senator CHURCH. That is over an 11-year period.

Mr. CLAGUE. In this next table, it is shown a little better. We did very poorly in the first quarter of 1978—only 0.3 percent. That would mean 1.2 percent for the whole year 1978.

Senator CHURCH. While our productivity has increased by roughly, say, 20 percent in the past 11 years, how much has the cost-of-living index risen in the same period?

Mr. CLAGUE. In the same period it has doubled. The price index is now nearly 200.

Senator CHURCH. So our productivity is increasing at a rate of only one-fifth that of the cost of living.

Mr. CLAGUE. That is right.

Senator CHURCH. Do you have figures that would compare our rate of productivity growth with that of other industralized nations in western Europe?

Mr. CLAGUE. I don't have it right with me, but I can answer in a general way without the actual figures. In Britain, it is much lower than us. Britain is really not doing very well. Germany and Japan are doing much, much better.

Senator CHURCH. Much better than we are?

Mr. CLAGUE. Much better than we are, yes; that is right. They are working hard and being highly productive.

In France, it is about like us. Italy is relatively poor on this point, too much labor and not enough productivity.

There are sets of figures, Mr. Chairman, that would give that whole comparison in recent years. The Bureau of Labor Statistics has them. I just don't remember the exact figures.

Senator CHURCH. Are you able to tell us how the Germans and Japanese have achieved a much higher level of productivity, other than the generalized statement that they are working harder? I mean, are there statistics that would bear out the fact that they put a relatively higher percentage of money into new plant equipment and related activities?

Mr. CLAGUE. Yes, indeed. That is the exact point; plus the point that labor in those countries has suffered from inflation. You will recall that after World War I, the German inflation in the early 1920's brought the German mark down to zero. They had to revalue their money. So in the postwar period of 1946 and thereafter, the German people were prepared—the worst thing they felt that could happen was another inflation. Consequently, the labor movement was very careful in its bargaining about wages. In Japan it was much the same—a dangerous inflation which alerted them to the fact that they must exercise restraint in the wage field, or else it will go up through the roof. So they have been able to keep inflation under control. It is interesting that those two peoples, who suffered defeat in the war, were the ones who appreciated the problem. At the present time, the German inflation is the lowest, I believe, of any country in the world.

Senator CHURCH. Thank you.

Mr. CLAGUE. I have some illustrations here of another factor that is bringing down our productivity in this country; that is, the raising of our health and safety standards. I want to emphasize that that is no argument against raising those standards. But I do want to cite the coal mine industry, in which I have made five studies in the last 6 or 7 years. Productivity in coal mining was spectacular from 1948 to 1968; it increased at 6 percent a year. That accounted for the very high wages of the coal miner.

From 1969 to the present, productivity has gone down by one-third. In other words, in underground mines an output of over 15 tons per man per day in 1969 has fallen to less than 10 tons. That is due in part to safety standards that have been set in motion, as well as the other

health standards, such as the elimination of black lung. This has effect then of reducing the productivity in coal mining. This same problem of safety and health is rising in other industries; in steel, in textiles, and others. These improvements in standards will reduce the productivity down to 2 percent a year, or perhaps less. This is not a criticism of higher standards; but it indicates that we have to be careful about wages rising too rapidly.

Early Retirement Factor

Then I come to early retirement as an inflation factor. I regard this as the marginal factor. I did try to emphasize in my paper that any one of these factors, by themselves—for instance, the rise in the Consumer Price Index—would gradually fade out. The cost-of-living increase that the retirees get does not occur until a year after they have suffered from it. This lag would bring the inflation down, if it was not for some other factors pushing it up.

Now, in connection with the earlier retirement, I have a table here which shows that in 1964, 1967, and 1970, there were just about one-third of the men workers wanting to retire earlier, and a little less than half of the women—46 percent.

Now you will notice how sharply it has jumped in recent years. We have half the men in 1976 retiring at 62 and 56 percent of the women.

In the economics of social security, when we have an inflation rate of 7 percent or higher, it pays to retire at 62 and get the benefits over the 62–64 period rather than waiting until 65 and getting the benefits then, only to find out that they are lower than they would have been with retirement at 62. I think that this is one of the factors that leads to earlier retirement.

I mention one other point concerning retirement; that is in a recent action of the Congress, Mr. Chairman, of dropping the age permitting earnings plus benefits from 72 to 70. It will be interesting to see to what extent that has any bearing upon the work of retirement decision of workers.

I noted also, which is not in my paper, that there is a 3-percent bonus now for each year of work after 65; in other words, for the person who stays int he labor force. When social security was first set up, we had a 1-percent bonus for every year that the worker worked, so that a man or women who put in 40 years would have 40 percent higher benefits on retiring than the simple average earnings. That bonus was lost in the revisions of the early 1950's. But it was a very valid point. If the person has an incentive to stay on working longer, and not draw benefits, that will reduce the benefit payments and bring the system more into better balance.

Senator Church. But is there really any incentive as long as the inducement is lower than the annual rate of inflation?

Mr. Clague. Well, in social security, I have called that the passive factor here. Social security is not really a very strong factor in causing early retirement in itself.

Senator Church. You see what I mean?

Mr. Clague. Yes.

Senator Church. I mean, if you give a person a 3-percent incentive to continue to stay in the work force, and in the meanwhile inflation

is diminishing the value of the dollar at the rate of 7 percent a year, that person would be better off retiring and taking the cost-of-living adjustment on his retirement income.

Mr. CLAGUE. Yes, and it will be quite interesting to see whether this modest incentive has any effect. We will have to wait and see what the result will be.

Senator CHURCH. Yes.

Mr. CLAGUE. In private industry, the situation was that private firms started out establishing retirement systems prior to World War I. I have mentioned some of them that were setting up retirement systems for their own employees. However, that movement came to a disaster in the 1930's. As you recall, the railroad systems which had been started went bankrupt, and the U.S. Government had to take them over—the railroad retirement program.

When social security was being debated in 1936, there was a very strong move to permit private industry firms to set up their own retirement systems instead of social security. But the experience with failures had been so bad that the proposal did not pass. Therefore, a private retirement system did not develop substantially in the 1930's.

However, in the post-war period, it grew up as an addition to social security in the form of supplementary private pension plans. Those have expanded very rapidly in recent years—in the last 20 years—and especially in the last 15 years.

There are two kinds of private plans. One is like the limited mine workers, which is completely independent. The mine workers retire at age 55 with their own private retirement pension independent of social security. On the other hand, the auto workers linked theirs into social security. The employer pays for only retirement, but saves money when social security goes into effect at age 65. Under the General Motors, the Ford, and the Chrysler plans, the workers get company benefits at whatever age is chosen for early retirement; but when the workers reach age 65 and social security becomes effective, then the employer cost declines. Therefore, there is a substantial saving to the private firm in merging their retirement benefits with social security.

Senator CHURCH. In other words, they just piggyback on the social security.

Mr. CLAGUE. That is right. They can provide early retirement, but when social security picks up, the employer pays less.

Senator CHURCH. Yes.

PRIVATE PENSIONS

Mr. CLAGUE. There has been some discussion on the Hill about this problem of private pensions, partly because in the early stages they were pretty much based on the long-service employee who works for most of his life with the firm. There were, sometimes, bad happenings—a man laid off at age 58—he needed to be 60 to get a pension, and he didn't get it. Then there was the other problem, which was mentioned earlier in your hearings, Mr. Chairman, people working in one place and another and another, but never having enough service to get any private pensions at all. The worker earns social security, but nothing else.

So then the law was amended, and Congress made these changes that are set forth here, a worker could qualify in 10 years; or he could qualify with a combination of age and length of service totaling 45; or with 25 percent vested after 5 years, but not getting the full amount until 15 years. Each of these provisions qualifies more pensioners.

But these changes have had another effect; namely, it has resulted in a loss of some plans, because this cost was more than some of the smaller firms could bear. I don't know the statistics on that. This is a case in which we may be improving the private pension system, but we are limiting their numbers to those firms that will be able to finance the program. I would like to read a paragraph here.

These private industry workers can retire at earlier ages on their own funds and then get social security when that becomes available. This may be one factor stimulating retirement at 62 under social security. The conclusion is that there is substantial early retirement in private industry plans, but it does have some limitations. In some firms and industries, there are occasional upward adjustments of benefits to offset the rising cost of living, but these are small. The purchasing power of a private pension falls behind the rising cost of living. Hence, these plans make only a limited contribution to greater inflation.

Federal Retirement Programs

Next, we come to the Federal Government, which has a multitude of retirement systems. The largest is the Federal civil service program, of which I am a beneficiary. It provides for long service, if that turns out the way the employee likes it. A recent change that has been made, as I find out here from the report, is that for about 95 percent of all Federal employees, the mandatory retirement age has now been abolished, so that they can now work into age 70 and beyond.

I have a table which shows what is happening to Federal civil service. In 1966, we had about 561,000 retired employees, and in 1977 we had about 1.1 million. The number has just about doubled. The payments were $1.2 billion in 1966, and now they are $8.1 billion. That is six tmies as much money. The combination is twice as many workers, each of them getting 3 times as much benefit. The reason is, of course——

Senator Church. That is not in constant dollars?

Mr. Clague. Pardon?

Senator Church. That is not in contant dollars?

Mr. Clague. No, that is because of longer service and higher pay. The average has risen from about $2,400 a year to $7,400 a year. In the Federal service, unlike social security, longer service provides higher benefits.

Senator Church. My point being is, your schedule here—on page 13—is in nominal dollars, not in constant dollars.

Mr. Clague. Oh, yes, indeed. That is right.

Senator Church. In that same period the value of the dollar has declined, as you pointed out earlier.

Mr. Clague. Yes. As a matter of fact, I touch on that in the next paragraph because I am one of the beneficiaries of that. Our benefits are raised twice a year by the Consumer Price Index. It runs January to June, and then we get the increase in September. Likewise, from July to December, with the new payment in April. So our benefits are escalated by the Consumer Price Index.

I want to emphasize strongly here that Federal employment is not growing. The approximate total for 1957 was about 2.2 million. Now it is 2.7 million, but in May 1978, it was 2,744,000, and in 1974 it was 2,724,000. So in the last 4 years we have had no increase at all in Federal employment.

Senator CHURCH. However, that does not take into account an article appearing in the morning paper?

Mr. CLAGUE. Yes.

Senator CHURCH. Millions on the Federal payroll.

Mr. CLAGUE. Secondary.

Senator CHURCH. Secondary, which was expanded maximum.

Mr. CLAGUE. I am not sure that they come under our Federal pensions.

Senator CHURCH. No, I don't think they do.

STATE AND LOCAL RETIREMENT

Mr. CLAGUE. No. They may be falling into the next problem which is our toughest problem, what I call the bombshell; namely, State and local government retirement. In that discussion, I made one error, which I hope it is the only one in this paper. That date of December 31, 1964, in New York, should be 1965. I didn't pay enough attention to the fact that Mayor Lindsay was elected in 1965. In New York City, the election comes a year after the Federal. Other than that mistake of date, the figures I present are correct.

The issue of early retirement in New York City came up in connection with the sanitation workers. Policemen and firefighters had taken the lead in early retirement, but it was the sanitation workers who broke through. Upon taking office in January 1966, Mayor Lindsay encountered a 10-day strike of the transport workers.

Three months later, in April, his administration faced the possibility of another strike by the sanitation workers. That was averted by giving them retirement at 50 percent of earnings after 20 years of service at any age. Five years later, the transit workers got retirement at age 50. The effect of that was to insure that those types of workers could retire at age 50 or any time after that, and then be able to enter other industries.

There is one more point about that retirement system. New York provided that the benefits in retirement would be paid at the total earnings in the last year of work so that the——

Senator CHURCH. That is a calamitous provision. I am wondering to what extent it has been a pattern for other retirement programs by those cities.

Mr. CLAGUE. I do not know to what extent. In fact, one of my limitations here is that I have not been able to study other cities. I know New York, because I was in the middle of that discussion. I think it does exist in a varsity of other places, but I am not sure where. The big point is, giving that bonus insures that the retiring worker puts in as much overtime as he can. That is why you have read in the papers about these workers drawing benefits equal to 115 percent of their regular earnings. This is because the benefits are based upon the overtime earnings in the last year of service. I don't know why they adopted the principle that the overtime earnings

should count in retirement benefits. Nor do I know how widespread that system is in other State and local governments.

The second advantage that workers can get from early retirement is that they can then go into private industry and earn a second retirement. That makes it possible for such a worker to earn social security also, provided the city government is not linked to social security. Thus, a worker could end up with three pensions—the city government, a private industry firm, and social security.

Now, one other point about city and other local government retirements, namely, disability. That is a very significant factor when there are from 75 to 90 percent of retired individuals being declared disabled. In that case, they do not pay any taxes on that retirement income, which again is a strong incentive to seek retirement.

Just one point on the economics. State and local government employment is rising rapidly. It has tripled since 1950. Employment in the past year has risen by 500,000. A retirement system which retires workers at an early age does not seem to be in trouble when employment is increasing rapidly. That is a situation in which the real danger is not apparent. There is plenty of money flowing in to take care of retirees at the moment, but the point is that when employment levels off or is cut back, the accumulating costs begin to exceed the income, and the system is in trouble.

Senator CHURCH. Those studies have been ordered, have they not, at least for the Federal programs?

Mr. CLAGUE. Yes; there is a study of the Federal system which is concerned with the whole subject of retirement. I believe there are some other studies in prospect, but I am not very clear about what they are.

Senator CHURCH. And some very tentative action is being taken in the Congress with respect to some of the most serious abuses of the military pension, the double-dipping abuses.

Mr. CLAGUE. Yes; I didn't go into that, partly because it is a big field in itself, and because it is just starting right now to get some of the expansions coming from World War II, with the Korean war following after. I am a veteran of World War I, so I am aware of that general situation, but that is a big study in itself.

COST-OF-LIVING ADJUSTMENT

Senator CHURCH. Yes; one of the difficulties where the elderly are concerned—particularly those on the social security system—is that the periodic annual adjustment for cost of living, which I sponsored some years ago, and succeeded in incorporating in the social security law, is based upon the Consumer Price Index, which is normally used for this purpose. But our studies show that the cost of the elderly's major purchases—for example, food, fuel, medical care, and housing—is increasing more rapidly than other prices.

These necessities pretty much consume the whole retirement income for those struggling on limited budgets. My question is whether the Consumer Price Index is a proper method for determining the actual inflation affecting retired people? What is your opinion?

Mr. CLAGUE. That question arose long before we got into this current inflation. Back in the midsixties, the question was raised, "Why

don't we have separate cost-of-living indexes for elderly couples and elderly singles?" This arose after our revision of the Consumer Price Index in 1964, when we turned in a new index. At that time, I was still Commissioner, and I made a proposal that we should have an elderly person's index prepared, perhaps quarterly would be enough. But at that time, the decision was made not to set up such an index. The authorities decided that it was not worth the cost; consequently, nothing was done.

I would agree with you that in some respects in the current situation, we really need an older person's index—an older couple and an older single. That would enable us to know, quarter by quarter, how things are going, because we might run into a situation in which food might be scarce and high-priced. And food is a large fraction of elderly persons' budgets.

Senator CHURCH. Thank you very much, Mr. Clague, for your very interesting testimony. Your full written statement will be a very important document in these hearings as well as your actual testimony.

Mr. CLAGUE. Thank you.

[The prepared statement of Mr. Clague follows:]

PREPARED STATEMENT OF EWAN CLAGUE

Mr. Chairman and members of the committee, I welcome this opportunity to testify here this morning at your hearing on "Retirement, Work and Lifelong Learning." The title I have selected is "Inflation and Retirement—The Cumulative Costs of Retirement Compounded by Inflation."

Introduction

The Consumer Price Index was initiated in World War I when President Woodrow Wilson instructed the Commissioner of Labor Statistics, Royal Meeker, to construct a cost-of-living index for use in regulating wage increases in war industries. The family expenditure surveys were begun in 1918, but the war ended before they were completed, so the index based on these surveys was not completed and published until 1920. The index, constructed on a 1913 base=100, was 211 in June 1920.

After recovering moderately from the 1921 slump, consumer prices remained quite stable. Industrial workers, who had become accustomed to cost-of-living increases during the war, found that the index of the 1920's wasn't doing them any good. So some unions requested the Commissioner of Labor Statistics to make some studies of worker productivity as a basis for wage increases.

A research statistician was appointed, historical data on production and employment were assembled and the first productivity indexes (on a 1913 base) were published in the Monthly Labor Review in July 1926. Over the next 2 years, about a dozen industries were covered, including automobiles, which had the best record of all—output per manhour three times the 1913 level.

But the outbreak of the depression of the 1930's destroyed all labor interest in productivity. Unemployment became the dominant statistic in the economy, which sank into the deepest and longest depression in its history.

In that situation, President Roosevelt appointed a Committee on Economic Security, which worked for 2 years in developing a comprehensive social security program covering old age insurance, unemployment compensation, plus public assistance for the needy.

At that same time, the Consumer Price Index was given the first comprehensive revision since 1918–19. Family expenditure studies were conducted, new commodities and services were added, and a greatly improved index was introduced in 1940 on a 1935–39 base.

These are the origins of the programs which are playing such sifinificant roles in the U.S. economy of the 1970's—old age retirement, the cost of living, and productivity.

I. The Consumer Price Index

RELATION TO INFLATION

When the Committee on Economic Security worked out the social security programs in 1934–35, they were cautious and conservative. Unemployment compensation was scheduled for only 16 weeks, public assistance scales were modest and old age insurance benefits were designed as a floor on which pesronal savings and family contributions could be added.

World War II disrupted the carefullly drawn programs. Price and wage controls held the line during the war, but they collapsed in the postwar readjustment and the Consumer Price Index jumped from approximatell 130 in the summer of 1946 to a peak of 175 in the autumn of 1948—an increase of nearly 35 percent in two years.

Prices declined slightly in 1949 and early 1950, but the outbreak of the Korean War caused an increase of about 10 percent from the summer of 1950 to the spring of 1951. But in the next 14 years, from the summer of 1951 to the outbreak in Vietnam in the spring of 1965, the CPI increased on the average only about 1.5 percent a year. With wage increases averaging at least twice that much, there was a substantial rise in the standard of living of American workers and their families.

The outbreak of war in Vietnam in 1965 opened up a new era in cost-of-living increases. By 1967, the index had risen 5.8 percent, which was nearly 3 percent a year, double the previous trend. By 1970, there was a further increase of 16.3 percent, which was an average of 5.4 percent a year.

This was too rapid a rate of increase for Congress to legislate from time to time some upward adjustment in benefits to offset the loss of buying power through inflation. So Congress adopted an automatic system of raising benefits once a year by the amount of the rise in the Consumer Price Index.

The following table shows the annual rates of increases measuring from mid-year to mid-year, 1968–78.

TABLE 1.—*Consumer Price Index: Wage Earners and Clerical Workers, Annual Rates of Increase, 1968–78*

(1967=100)

Year:	*Increase (percent)*
1968	4.2
1969	5.4
1970	5.9
1971	4.3
1972	3.3
1973	6.2
1974	11.0
1975	9.1
1976	5.8
1977	6.5
1978	[1] 7.0

[1] May 1977 to May 1978.

There are two significant points in this table. One is that the business recession of 1970–71 produced a 30 percent decline (5.9 down to 4.3), which was followed by a still slower rate (3.3) by the summer of 1972. That was the effect of the controls which President Nixon imposed in August 1971.

Controls were taken off in 1973, and the CPI immediately responded. There was a 6.2 percent increase to mid-year, followed by a full year increase of 11 percent in the summer of 1974. Then came the worst business recession in the United States since the 1930's. However, the index responded slowly, reaching bottom in 1976, with a rate slightly under 6 percent (5.8). Then the upturn was resumed—6.5 percent in 1977 and 7 percent for the most recent index (May). Furthermore, the administration's economists have recently come out with an estimate of 7.2 percent for the calendar year 1978.

At the present rates of increase the index should cross 200 by autumn, which means that the index will have doubled in the 11 years from 1967 to 1978. Because the average citizen is more conscious of month-to-month changes in the index, or perhaps the year-to-year, he or she is not fully aware of the eventual

impact of those rates of increase. A projection into the future will highlight the impact of inflation.

If the 1968–78 cost-of-living increase continues into the future, the Consumer Price Index at the end of 1990 will be about 400 (double the present) and will be nearing 800 by the year 2001 (doubling again). This is *not* a forecast; it is a projection to show where the economy is going unless steps are taken to control inflation, whatever may be the cost.

To illustrate the meaning of these statistics, here are a few homely examples. In our home, a half-gallon of milk now costs 85 cents; in 2001 it would be $3.40. A $100 men's suit would cost $400; the Metro fare in Washington would be $2, or possibly even more, because the fares aren't high enough now to cover expenses.

The problem for the U.S. Government and the American people is, what can be done to slow down this rate of inflation, and, if possible, bring it to a halt? The answer to that question must come from an analysis of the factors that produce the inflation.

II. Wages and Salaries

Wages and salaries are the dominant factor in the national income, averaging in recent years about 77 percent. Adding the income of small proprietors brings the total to about 83 percent. About five-sixths of the national income goes to people who get income from work.

Wages in the U.S. economy are largely determined by collective bargaining. It is true that only about one-fifth of the total labor force is fully organized, but the unorganized generally follow along, usually with some lag in time and occasionally with some shortfall in wages and fringe benefits. At the lower end of the scale, the Federal and State governments step in with minimum wage requirements, which are periodically raised to keep pace with general wage increases.

When questioned one time by a reporter as to what wages labor wanted, AFL President Samuel Gompers answered "more." So the problem becomes, how much more? From the employer's viewpoint, the source of wage increases is profits. But some firms in an industry don't have any profits, so there is the risk of loss of jobs if the wage increase is too high. In that situation, the cost of living usually becomes a floor; wages should not fall through loss of purchasing power. It is also evident that in a competitive society employers will always be trying to improve their efficiency. This factor is measured by indexes of productivity, which are the statistical measurement of output per manhour of work.

The postwar inflation of 1946–48 brought these two concepts together in the famous escalator collective bargaining contract between labor and management in the automobile industry. In first postwar bargaining of 1945–46, there had been a prolonged strike with serious loss of urgently needed auto production.

There was national concern about another strike in 1948. Suddenly in late May, there was a public announcement that Charles Wilson, the president of General Motors, and Walter Reuther, the president of the Automobile Workers union, had signed a new type of contract which combined two very significant factors. The first was an annual increase in wages equal to the average increase in productivity in the national economy as a whole, which was estimated to be a little under 3 percent a year. The other factor was a quarterly increase in wages based upon the changes in the Consumer Price Index.

While General Motors was the first to sign an agreement, Ford, Chrysler, and the other companies accepted the general principles, so there was no automobile strike in 1948, and automobile production expanded rapidly.

In 1950, when the contract came up for renewal, the auto workers had actually suffered a small loss in wages on the cost-of-living factor (the index had come down a few points). But the productivity factor had produced an increase of more than 5 percent in wages. The contract was sufficient popular among the workers and their families that it was renewed for a 5-year term. After that the term was changed to 3 years. When the next renewal of the contract comes up in 1979, it will have been in operation in the auto industry for 31 years.

One reason for the continued success of the automobile contract was that the productivity increases (based on productivity in the national economy) were nearly always lower than productivity in automobiles. The Bureau of Labor Statistics reported the following annual rates in motor vehicles, 1970–76: 2.0, 16.7, 4.0, 2.5, —4.4, 6.8, 9.1. Except for the disastrous year 1974 (—4.4), all the other years are good to excellent for profits. So it is not bargained wage increases which have sent auto prices to such high levels; it is the escalation by the Consumer Price Index.

Furthermore, the high inflation in recent years has created greater interest by both management and labor in contracts of the escalator type, namely, with precise quarterly, semiannual or annual wage increases based directly on the CPI. According to the most recent data of the Bureau of Labor Statistics, the number of workers covered was about 5.7 million under major contracts. What that type of contract does is to tie wages more closely to the cost of living.

But during the 1970's, national productivity has not been maintained at its theoretical 3 percent level for the total private economy. The next table shows the annual increases for the period 1967–78.

TABLE 2.—PRODUCTIVITY IN THE PRIVATE BUSINESS SECTOR, ANNUAL INDEXES

Year	Index	Rate of change (percent)
1967	100.0	
1968	103.3	3.3
1969	103.7	.4
1970	104.5	.7
1971	107.8	3.2
1972	111.0	3.0
1973	113.1	1.9
1974	109.9	−2.8
1975	111.8	1.7
1976	116.5	4.2
1977	119.5	2.6
1978[1]	119.9	.3

[1] First quarter.

This is a classic case. Productivity reached 3.3 percent in 1968, but fell back to 0.4 percent in the peak year 1969. It improved substantially in 1971–72, but then slackened off in 1973 and had an actual loss (−2.8 percent) in the business downturn beginning in 1974. On the upgrade, some improvement came in 1975, with the highest increase of the decade in 1976 (4.2). Then came the slackening in 1977, with some indication of a further slowdown in 1978, although there may be an improvement in the second quarter.

The record of the decade 1968–77 is not up to the previous productivity gains. The average gain for 1967–77 is just a little under 2 percent a year, which is a substantial decline from the 3 percent which was approximately the rate for the period between the Korean War and the outbreak in Vietnam.

The outlook for higher productivity in the immediate future is not very good. With increasing population and expanding industrial production, the effects upon the environment are becoming greater and Congress is establishing new higher standards of health and safety in American industries.

The most striking example of the new standards is the bituminous coal industry. For a period of 20 years, 1948–68, that industry had one of the highest productivity increases in U.S. industry—an average gain of about 6 percent per year. Employment in the industry declined from 425,000 miners in 1948 to 125,000 in 1968, a cutback of 300,000 miners. Yet because of the productivity, the miners' wages were among the highest in American industry.

In 1969, Congress passed the Coal Mine Health and Safety Act, which established new health and safety standards. Furthermore, Congress provided special pensions for all miners, currently working or previously retired, who were afflicted with black lung and other diseases. Widows and children of such miners were also covered. The costs were not charged to the industry, but paid from Federal funds. The result was about 210,000 ex-miners, with 145,000 widows with and without children, drawing black lung benefits in 1973. The program (for new cases) ended in 1973, but the existing case load is being carried to the 1980's.

Coal mining provides an excellent example of the price which society must pay to create safe and healthy working conditions in American industries. New environmental standards are also being set for the steel industry, chemicals, textiles, and a number of others. In such industries, the improvements in health and safety are essential, both for the affected workers and the general population. But it must be clearly understood by the American people that these changes require more labor and will reduce productivity per man.

The prospect for the economy is that productivity in the private business sector will continue into the 1980's at the 2 percent level, with the possibility of some

further reduction. Under those assumptions the outlook would be this—with respect to the cost-of-living factor, the system of escalating old age retirement benefits by the Consumer Price Index, as outlined in section I, contributes to further inflation by increasing consumer buying. But it is important to emphasize that this is a passive factor in causing inflation. Consumer prices rise during the year; but during those 12 months, the purchasing power of the monthly benefits declines. At the end of the year, the beneficiary receives an increase in the monthly benefits equivalent to the loss of purchasing power. But then during the next year he loses again, and so on. The point is that this is a fading factor in causing inflation. If it were the only factor, the inflation would eventually be brought to an end.

However, if wage increases for the economy as a whole exceed the 2 percent productivity gain, they begin to offset the savings made possible by lagging escalation through the cost of living. To the extent that average economywide increases exceed productivity, to that extent they constitute an additional factor producing inflation.

III. Early Retirement As An Inflation Factor

This brings up the question as to what other factors in the economy may be generating inflation. One possibility is early retirement. The selection of 65 years as the appropriate age of retriement originated in the old age and mothers' pension systems in the various States before and after World War I. These welfare pensions were usually set at $30 per month.

Social Security

When the social security program was adopted, 65 years was designated as the age for the receipt of old age benefits. But there was one modification, namely, that workers could retire as early as 62, with the proviso that the benefit would be reduced by 6.7 percent for each early year. The idea was that the eventual cost would be about the same, since the early benefit payments would be offset by the savings to the fund by the reduced benefits after 65.

These early retirement schedules were firmly maintained down to within the last few years. But inflation began to stimulate early retirement as shown by the following table.

TABLE 3.—RATIO OF RETIREMENT TO ELIGIBLES, SELECTED YEARS, 1964–76

Year	Men (percent)	Women (percent)
1964	31	46
1967	33	46
1970	34	46
1972	39	49
1974	44	56
1976	49	54

What this table shows, year by year, is the proportion of men and women workers eligible for retirement who actually chose to do so at ages 62–64. Two points are clear. One is that women retire earlier than men. In the longer past, about one-third of men workers and nearly half of the women retired early. The other point is that the inflation rates of the 1970's stimulated that decision. In 1976, just about half of the men eligibles and 56 percent of the women chose early retirement.

At inflation rates of 7 percent or more, the early retiree would get higher benefits after age 65 than the fellow worker who continued working until age 65 and then drew his benefits.

One modification voted by Congress recently was a reduction in the age at which the retiree was entitled to both benefits and earnings. This action was in response to a proposal that all beneficiaries should be entitled to full benefits at 65 without any reduction at all for earnings. The additional cost of this would have been substantial. Congress was willing to make a reduction of 2 years to age 70. It will be of interest to note in the next few years the extent to which this increases the benefit payments.

In summary on social security, it must be emphasized that the system has retained its original basic character. The escalation of benefits by the Consumer Price Index is the major factor in the expension of the benefit payments, and the year's lag in applying the cost-of-living increase would gradually bring the index down to stability, if there were no other inflation factors operating to push prices upward.

PRIVATE INDUSTRY RETIREMENT SYSTEMS

Private industry and a few unions developed retirement systems at about the beginning of the century. The A.T. & T. program was established in 1913. A number of railroad companies created pension systems for long-service employees.

However, the depression of the 1930's bankrupted many of the private systems. The plight of the railroad companies was such that Congress passed an act in 1935 (prior to the Social Security Act) creating a national retirement system for all railroad employees. This has continued, separate from social security, down to the present.

When the Social Security Act was being debated in Congress, a strong drive was made for a provision offering employers an opportunity to set up their own private retirement systems, in which the employers would be excluded from social security. One factor causing the rejection of that idea was the disastrous experience of the early 1930's.

But after World War II, there was a marked growth of individual company and industrywide pension plans, which were supplementary to social security. In some industries, such as bituminous coal mining, the pension plan was completely independent of social security. In other industries, such as automobiles, compar, plans paid early retirement benefits from their own funds, but cut back their own payments by the amount of social security benefits when these became available. On either of these bases, the growth in private industry retirement plans during the 1950's and 1960's was very impressive.

It is important to note at this point that these industry plans provide substantially earlier retirement than social security. The prevailing retirement age was 60. This was usually expressed in a combination of age and length of service—60 and 30, or 55 and 35. On length of service, there were minimum requirements of 15 years, 20 years, or even total service up to retirement age.

As the systems developed, problems arose. A worker laid off at age 58 would lose his pension due at 60. A worker who never worked as long as 15 years for any one company found himself without any private pensions, despite a lifetime of work. In fact, there are workers who go through an entire working life without serving long enough with any employer to earn a private pension. They would of course get social security benefits upon retirement.

Congress took a long look at this general situation some years ago and came up with new and firm specifications for private industry pension plans. One was a requirement that the worker be entitled to some pension after a definite minimum length of service, for which there are three alternatives. One is a fully vested benefit after 10 years. Another is the rule which provides 50 percent vesting when a combination of age and service equals 45. Still another provides for 25 percent vesting after 5 years, reaching full vesting after 15 years.

Another requirement was for adequate reserves for pension funds. In addition, provision was made for a reinsurance fund administered by the Department of Labor to rescue any failing funds.

The trend in private industry plans has been in the direction of earlier retirement. In a number of major industries, the plans provide for 30 years of service at age 55. There is one incentive toward this early retirement (apart from a need to retire from work), namely, that a worker retired from one firm or industry can work and earn wages without loss of the pension. In the automobile industry, such early pensions are now payable at age 50. But such early retirement in automobiles, steel, and some other industries is subject to a requirement that the retiree is restrained from earning wages or salaries in any other industry.

The more stringent requirements of the recent legislation is resulting in some decline in private pension plans, especially among smaller companies. The higher standards established by the new legislation may restrain to some extent the growth of private pension plans.

On the subject of early retirement, there is little doubt that these plans create a larger financial burden on industry than would be the case if their retirement

ages corresponded to those of social security. As it is, these private industry workers can retire at earlier ages on their own funds and then get social security when that becomes available. This may be one factor stimulating retirement at 62 under social security.

The conclusion is that there is substantial early retirement in private industry plans. But it does have some limitations. In some firms and industries there are occasional upward adjustments of benefits to offset the rising cost of living. But these are small. The purchasing power of a private pension falls behind the rising cost of living. Hence these plans make only a limited contribution to greater inflation.

FEDERAL GOVERNMENT

The Federal Government has a multitude of retirement systems, both civilian and military. For civilians the Civil Service Retirement System is the largest and can be used as a model for the minor ones.

The Federal Government has a wide range of retirement possibilities. At the upper limit retirement was formerly compulsory at age 70, with the proviso that an empuloyee could work beyond 70 in order to achieve 15 years of service. At the lower end of the scale employees with 20 years of service can retire at age 60. Employees with 30 years of service can retire at age 55, and even earlier, if they accept a reduction in benefits.

The following table shows the upward trend in number of civil service retirees and the corresponding payments.

TABLE 4.—FEDERAL CIVIL SERVICE RETIREES AND BENEFITS, SELECTED FISCAL YEARS, 1956–76

[Dollar amounts in millions

Year	Number	Payment
1966	560, 992	$1, 322
1968	604, 873	1, 665
1970	662, 223	2, 129
1973	843, 520	3, 762
1974	938, 654	4, 825
1975	989, 786	6, 052
1976	1, 038, 377	7, 098
1977	1, 096, 561	8, 143

In the 11-year period from 1966 to 1977, the civil service retirees under that system increased from about 561,000 to almost 1,097,000—very nearly double. Over that same period, the benefit payments increased from $1.3 billion in 1966 to $8.1 billion in 1977. The average annual benefits increased from about $2,400 a year to more than $7,400. Beneficiaries double and benefits triple.

The most recent change is that after September 30, 1978, mandatory retirement has been abolished for about 95 percent of all Federal employees.

Retired civil service employees have their benefits escalated by the Consumer Price Index, but with a somewhat different formula from social security. Civil service retirees have catchup payments twice a year. The increases are calculated on the June and December indexes, with benefits payable three months later in each case. Therefore, civil service employees receive benefits more closely following the rise in the cost of living than do social security beneficiaries. In both instances, of course, they are always losing ground except in the month of catchup.

Federal civil service employees have in the past paid substantially more for their retirement benefits than the social security coverage. The Federal contribution rate is now 7 percent of wages and salaries, and it was 6 percent for many years before that. Social security now has a contribution rate of 6.05 percent, but this includes about 1 percent for the hospital insurance program under medicare.

The most recent development is that Congress has ordered a study of the possibility of merging the Federal Government retirement programs with social security.

There is one important point concerning Federal employment which is *not* fully understood by the public. Federal employment is *not* growing rapidly. In 1957, the figures were about 2,217,000; in May 1978, about 2,744,000. That is an increase of 525,000, or approximately 25,000 a year. But there has been no recent growth at all; the average for 1974 was 2,724,000 and for 1977 almost exactly the same—2,727,000.

MILITARY PENSIONS

This subject requires more attention than could be given for this paper. Veterans of World War II are reaching retirement ages, and they will be closely followed by those from the Korean War. This cost falls on the Federal Government and will constitute a retirement outlay in the future much higher than the funds required for civil service and other civilian employees.

STATE AND LOCAL GOVERNMENTS

Retirement systems were slow in developing in State and local governments, partly because in some places the employees were political appointees subject to occasional turnovers. A retirement program can't operate under such circumstances. In other places, the employees were able to stay on the job as long as they wanted to do so, even into age 70 and beyond.

But the new conditions in the postwar economy brought some fundamental changes in the States, counties, and cities. The lead was taken by workers providing essential services, such as police, firefighters, transportation workers, and sanitation workers.

The situation in New York City is so well known that it can serve as a case study, representative of many other cities throughout the country. The transit workers (subway and bus) had a contract with New York City which expired on December 31, 1964. The newly elected Mayor Lindsay did not take office until January, but the union leaders refused to settle with the outgoing mayor. They then conducted a strike in the first week of Mayor Lindsay's term. After some bitter negotiations a strike settlement was reached.

Then in April, the contract with the city's sanitation workers came up for renewal. It was vital for the new administration not to have another strike. So the city negotiators accepted a provision which permitted sanitation workers to retire at 50 percent of earnings after 20 years of service, at any age.

This was a monumental change in retirement policy. From that day forward early retirement options spread rapidly. The transit workers wanted the same privilege, but the city feared the loss of so many of its skilled workers, especially the machinists repairing the cars. However, in 1971 an agreement was reached for retirement at age 50 after 20 years of service with a benefit of 50 percent of earnings, with additional benefits of 2 percent a year for longer service. A worker entering at age 25 could retire at 50 with 60 percent of earnings.

The stimulus toward early retirement was greatly strengthened by another provision of the contract which raised monthly benefit payments. These were based upon the employees' earnings in the last year of service, including all overtime earnings. The result was that employees planning to retire sought all the overtime they could get. Stories have appeared in the press recently citing examples of retired employees drawing benefits higher than their regular full-time earnings on the job. Of course, that scale of benefits could easily be achieved by long-service employees.

But the other advantage achieved by early retirees was the opportunity to earn a second retirement benefit from another employer. An employee retiring at 50 years of age could earn social security coverage by age 60, and, in addition, possibly a second retirement pension with a private firm.

This overlapping of retirement benefits, coupled with full-time earnings from work, is the duplication of incomes which causes inflation.

New York is not unique; it is quite typical. Throughout the country other local governments (and States) have established retirement systems which permit early retirement. This is one reason that the local governments are in financial trouble.

Police and firemen have long been in the lead of the drive for early retirement. Because of the personal danger in those occupations, early retirement seems natural and logical. However, those systems usually provide for tax-free benefits for disabled retirees. The result has been in many cities and counties that from 75 to 90 percent of the early retirees are classified as disabled, which means that they pay no taxes on the benefits, or only a small amount.

Police and firemen are very special classes of local employees with relatively small numbers. The problem is that other State and local employees attempt to match these retirement benefits, or at least to move toward them. And in the case of these other employees the numbers are startling.

State and local government employment in 1950 numbered about 4 million; in May 1978, the number was nearly 12.9 million—more than triple expansion.

Within the last year (May to May) there has been an increase of 500,000 employees, desipte all efforts which have been made to hold down and even to cut back on city government employment.

Local government employees comprise about three-quarters of the total, with the States about one-quarter. However, State employment is growing somewhat faster. In 1955, local employment was about 3.6 million and State less than 1.2. In April 1978, the preliminary figures are 3.5 million and 9.7. Both constitute the fastest growing employment in the U.S. economy.

Retirement systems for organizations with such high growth rates in employment have a favorable financing factor which conceals some basic problems. New employees start at the bottom of the ladder; retirement comes later. It is when the employment expansion slackens and finally comes to a halt that the reckoning comes. And an actual cutback in employment would produce a crisis in the retirement program.

In this situation, early retirement may be the timebomb that will upset the system. Employees young enough to get other jobs will take the retirement benefits and hunt other work, in which they can have both earnings and benefits. The older employees will be entitled to benefits which cannot be met by the contributions. The alternatives are failure to pay benefits or increases in contributions and taxes.

What is urgently needed is more intensive study of the early retirement problem in order to find out what could be done to bring the situation under control.

Conclusion

It is not any one factor, but rather a combination of factors, which together produce a persistent inflation.

Escalation of wages and salaries by the Consumer Price Index is a strong sustaining factor in a rising cost of living. But it is offset by an increase in productivity, which reduces labor costs to the employer. If consumer prices rise 6 percent in a year, and productivity is only 2 percent, it would require an economy-wide increase of about 9 percent to generate a further rise in prices.

But if these two factors are not sufficient to create inflation, there are some others which can help push the ball over the line. Still another is the escalation of retirement benefits by the Consumer Price Index. Since these benefits are paid largely to nonproducers, they have the effect of increasing consumption without any corresponding increase in production. Any shortage in the contributions available to balance the benefit increase will generate additional inflation.

Finally, there is early retirement, which is not adequately provided for. Early retirement has two inflationary factors. One is the shortened duration of contributions, perhaps 30 years of work to age 50, plus a lengthened duration of benefits, age 50 to age 80.

The other is the combination of full-time earnings and early retirement benefits. Furthermore, the new earnings may produce a second retirement benefit.

Theoretically, all these factors could be brought under control by the appropriate balancing of benefits and contributions. This can be done by restricting the benefits and raising the contributions until the program is in balance.

In practice, this is what is not done. The pressure against higher contributions is forceful. So the problem is postponed.

What is needed is a study of this problem while it is still in its elementary stages, in order that some reasonably satisfactory solution can be devised.

Senator CHURCH. The hearings are now recessed until tomorrow morning at 10 o'clock.

[Whereupon, at 12:05 p.m., the hearing recessed, to reconvene at 10 a.m., Wednesday, July 19, 1978.]

APPENDIX

Correspondence Relating to Hearing

Item 1. Letter and Enclosure From Senator Frank Church, to Hon. F. Ray Marshall, Secretary, Department of Labor, Dated July 31, 1978

Dear Mr. Secretary: Thank you very much for your testimony at our recent hearing on "Retirement, Work, and Lifelong Learning." I was glad that you could participate, and I look forward to a close working relationship with personnel from your Department as our hearings and studies on related issues continue.

I have compiled a list of questions and requests either made at the hearing or added since. We would like to have this additional material by September 5 for inclusion in our hearing record. If it is not possible to give a final statement on any individual matter, I would be glad to have an interim response indicating when the additional information will become available.

With best wishes,

Sincerely,

Frank Church,
Chairman.

[Enclosure]

Questions From Senator Frank Church

1. You have indicated that the Bureau of Labor Statistics projects a continuing decline in the labor force participation rates of older persons through the turn of the century—from 48 percent in 1977 for men 55 or older to 35 percent in 2000. To what extent will the enactment of the Age Discrimination in Employment Act Amendments affect this downward trend? In addition, is there a possibility that the trend may be reversed, as pension costs continue to climb because of the higher ratio of older persons to younger workers?

2. One of the committee's witnesses—William Babson, a financial consultant—suggested the establishment of minimum benefits, along the lines of a minimum wage. What is your reaction to this proposal?

3. What was the rationale for transferring responsibility for administering the Age Discrimination in Employment Act from the Department of Labor to the Equal Employment Opportunity Commission—especially since EEOC has a huge backlog of claims?

4. What would be the cost of reducing or eliminating the FICA tax for older workers by extending the current earned-income tax credit to aged persons without children?

5. In fiscal 1977, persons 55 or older accounted for only about 6 percent of all new enrollees in the CETA (Comprehensive Employment and Training Act) public service jobs programs. What has the Department done or plans to do to sensitize prime sponsors about the needs of older workers?

6. You have said in your written statement that more Americans are finding it possible to retire at an earlier age because of "rising standards of living and increased concern with income security." Do you think this trend toward earlier retirement is desirable when the cost of public and private income maintenance programs are mounting rapidly and will increase more rapidly in a few years?

7. You state that the labor force participation rate for men 55 and over is expected to drop from 48 percent now to 35 percent in 2000. For older woman, it is expected to decline from 23 percent to 19 percent during this same period. What assumptions are made in arriving at this rate of decline? What has been the history of accuracy of labor force participation rates for the 55+ group in the past?

8. The 1978 Age Discrimination in Employment Act Amendments direct the Secretary of Labor to conduct a study concerning the effect of raising the upper age limit of the Age Discrimination in Employment Act to 70 as well as the feasibility of eliminating the upper age ceiling entirely. Your letter of July 12, written in response to a committee inquiry, says you will make every effort to issue an interim report by January 1981, and a final report by 1982. When do you expect this study to begin?

9. The Department of Labor's annual report under the Age Discrimination in Employment Act has for 10 years referred to a study in progress under section 5 of the act to examine "the institutional and other arrangements giving rise to involuntary retirement." To date, no satisfactory study has been completed. When do you propose to complete this study? Will this be part of the overall study mandated by section 6 of the 1978 amendments or will it be handled separately? What are your specific plans and timetables to address this issue?

10. The Senate version of the 1978 Older Americans Act Amendments directs the Department of Labor to give special consideration to minority organizations in awarding grants and contracts under the senior community service employment program. Earlier this month, funding for the senior community service employment program increased significantly. What are the Department's plans, if any, to award contracts to minority organizations, such as the National Caucus on the Black Aged and the National Association of Older Persons?

11. What is the Department of Labor doing to promote job performance evaluation and mid-career training?

12. The House of Representatives recently passed the Federal Employes Flexible and Compressed Work Schedules Act (H.R. 7814) and the Federal Employes Part-Time Career Employment Act (H.R. 10126). What is your Department's position concerning these two bills?

Questions From Senator Edward W. Brooke

Senator Brooke asked that the following questions be raised, since he was unable to attend the hearing in which you testified:

1. How many age discrimination cases has DOL received during the past three years?

2. How many age discrimination cases does DOL bring to court?

3. What are the criteria for telling a complainant that he or she should sue an employer on his/her own? In other words, what are the reasons that DOL takes some cases and tells other persons to sue on their own?

4. What would you estimate the average cost to the individual for bringing his/her own age discrimination case to court?

5. Do large employers tend to dismiss individually brought age discrimination complaints as of no consequence because they may believe that few people discriminated against have either the time or the money to sue on their own?

6. Some persons have suggested that the agency administering the Age Discrimination in Employment Act should be given "cease and desist" authority. Would you agree?

Item 2. Letter and Enclosures from Hon. F. Ray Marshall,[1] Secretary, Department of Labor, to Senator Frank Church, Dated September 11, 1978

Dear Senator Church: This is in response to your letter with questions from yourself and Senator Brooke following my appearance before your committee on July 18, 1978. I am also enclosing the inserts for the record which we were to supply.

I hope this information is useful to you, Senator Brooke, and other members of the committee.

Sincerely,

Ray Marshall,
Secretary of Labor.

[Enclosures.]

Response to Questions From Senator Frank Church

Question 1. You have indicated that the Bureau of Labor Statistics projects a continuing decline in the labor force participation rates of older persons through the turn of the century—from 48 percent in 1977 for men 55 or older to

[1] See statement, p. 112.

35 percent in 2000. To what extent will the enactment of the Age Discrimination in Employment Act Amendments affect this downward trend? In addition, is there a possibility that the trend may be reversed, as pension costs continue to climb because of the higher ratio of older persons to younger workers?

Response. The enactment of the 1978 amendments to the Age Discrimination in Employment Act is expected to have a relatively small impact on the number of older persons in the labor force. In testimony before the House Select Committee on Aging on May 19, 1978, Department of Labor spokesmen noted that labor force participation profiles suggest the number leaving the labor force because of mandatory retirement requirements is small. The availability of retirement benefits, and possibly declining health, are probably more important incentives for leaving the labor force.

Using data provided by the Social Security Administration (SSA) and the Current Population Survey (CPS), Department researchers estimated that an additional 125,000 to 172,000 men and women aged 65 to 69 would be in the labor force if mandatory retirement before age 70 were banned. This represents a net addition to the U.S. labor force of less than two-tenths of 1 percent due to the 1978 ADEA amendments. The same study estimated that about 36,000 men aged 65–69 were unemployed or involuntarily working part time as a result of mandatory retirement.

As part of the study mandated by the 1978 ADEA amendments, we will be developing more refined and detailed estimates of the effects of the mandatory retirement changes. Congress has asked the Department to develop such information in order to help examine the feasibility of outlawing mandatory retirement altogether.

In a "pay-as-you-go" system like social security (and many public-employee pension plans), a growing number of retirees places an increasing burden on younger workers whose taxes must finance benefits. The result may be growing pressure to lower benefits or raise the age of eligibility.

Both of these changes, of course, would act to increase the labor force participation rate of older persons. In the case of the social security system, it is hard to conjecture just how strong—and how effective—these pressures from younger workers will be.

In the case of a fully funded private pension plan, these demographic shifts should theoretically have no effect, since by the time the worker retires all contributions on his behalf have already been made. However, benefits under private pension plans may not be entirely funded in advance of retirement because of the extended amortization period for funding benefit increases and unfunded prior service costs. Thus, to a more limited extent, they will be subject to similar pressures to the ones that OASI will face.

Question 2. One of the committee's witnesses—William Babson, a financial consultant—suggested the establishment of minimum benefits, along the lines of a minimum wage. What is your reaction to this proposal?

Response. We are unable to take a position on Mr. Babson's proposal to establish minimum pension benefits without studying his specific proposal in considerably more detail and discussing it within the administration. However, without adopting a position, we can sketch out the potential economic effects of such a law.

As the law currently stands, companies are under no obligation to offer a pension plan to their employees. (Those who choose to do so, though, must meet ERISA standards.) A minimum-benefits law could be expected to cause some plans to go out of existence because sponsors will consider the plan excessively costly.

The necessity to fund the new minimum benefits could have negative employment effects as employers unable to bear the higher labor cost lay off workers or cut back their hiring plans. In the long run, a minimum benefit law could also slow the growth or take-home wages as the company's labor costs are reallocated away from current wages toward deferred wages (pensions).

These economic effects would be selective in their impact, having their strongest impact on employers whose plans do not already provide the mandated minimum.

Question 3. What was the rationale for transferring responsibility for administering the Age Discrimination in Employment Act from the Department of Labor to the Equal Employment Opportunity Commission—especially since EEOC has a huge backlog of claims?

Response. The transfer of responsibility for enforcement of the ADEA (and the Equal Pay Act) from the Department of Labor to the EEOC is scheduled to take effect on July 1, 1979. Attached are copies of testimony presented last March before the Senate Committee on Governmental Affairs, Subcommittee on Legislation and National Security, by Mr. Donald Elisburg,[1] Assistant Secretary of the Employment Standards Administration in the Department of Labor, and Mr. James T. McIntyre, Jr.,[2] of the Office of Management and Budget, concerning the reorganization plan under which this change is being made. These statements explain in full the rationale for the transfer of responsibilities.

Question 4. What would be the cost of reducing or eliminating the FICA tax for older workers by extending the current earned-income tax credit to aged persons without children?

Response. The earned-income tax credit (EITC) currently applies to earnings up to $8,000 for parents with children in the household. The EITC amounts to a 10 percent credit on earnings up to $4,000; the credit begins to be reduced at a 10 percent rate when earnings exceed $4,000, finally disappearing at $8,000.

Through use of earnings data from the March 1977 Current Population Survey, we have made a rough estimate of the revenue loss that would be caused by extending the EITC to workers 65 and over. The estimate was developed under the following assumptions:

—Only the earnings of the over-65 worker would be eligible for the EITC. Thus, if only one partner in a marriage were 65 or older, only he (or she) would be eligible for the credit.

—Persons over 65 living alone or with unrelated individuals would be eligible.

—All workers eligible for the EITC would claim it.

Under these assumptions, we estimate that the annual cost of such a change in EITC provisions would be approximately $272 million. Of this total, $152 million would go to aged persons living with a spouse; $120 million would go to aged persons living alone or with unrelated individuals.

Question 5. In fiscal 1977, persons 55 or older accounted for only about 6 percent of all new enrollees in the CETA (Comprehensive Employment and Training Act) public service jobs programs. What has the Department done or planned to do to sensitize sponsors about the needs of older workers?

Response. As a followup to the national program for selected population segments (NPSPS) operated under title III of CETA, a series of monographs was prepared describing various approaches to the provision of services for specific groups, including older workers. These monographs were distributed through the system and served to assist prime sponsors in developing better programs for older workers.

Additionally, prime sponsors were directed, in developing their grant applications for fiscal year 1978, to identify planned service levels in their CETA programs by race, age, and sex, comparable to the incidence of these categories of workers in the unemployed population. Prime sponsors were expected to plan programs at levels approximately the levels of need. Where variances were found between the level of need and planned levels of services, it was necessary to provide an explanation to the regional office and, where indicated, to make the necessary modifications in the service plan. We regard the linking of the grant application approval process to the planning of levels of services for age, race and sex groups as an important first step in the approach to assessing service levels by age.

Question 6. You have said in your written statement that more Americans are finding it possible to retire at an earlier age because of "rising standards of living and increased concern with income security." Do you think this trend toward earlier retirement is desirable when the cost of public and private income maintenance programs are mounting rapidly and will increase more rapidly in a few years?

Response. The trend toward earlier retirement has been apparent for the past four decades and is linked to the dramatic expansion of social security, among other factors. At the end of World War II, for example, just under half of men 65 and over were still in the labor force; today the figure is one-fifth. A typical male worker today, retiring at about 62, can look forward to over 15 years of

[1] See p. 161.
[2] See p. 163.

retirement. With the income security provided by OASI, furthermore, the prospect of inability to work because of declining health has been rendered less worrisome.

This trend toward early retirement does pose difficulties for retirement income programs financed on a "pay-as-you-go" basis, inculding social security, SSI, and many public-employee pensions, all of which are sensitive to demographic changes. The Department advocates several strategies for dealing with these difficulties.

—Vigorous enforcement of the Age Discrimination in Employment Act, and dissemination of information to employers concerning the abilities of older workers, will ensure that "retirement," when it occurs, is truly voluntary.

—The encouragement of part-time "call-back," and other flexible arrangements for older workers will afford them the option of partial rather than full retirement.

—The expansion of private pensions, which operate on a funded basis, will provide a supplemental source of retirement income which lacks social security's extreme sensitivity to demographic factors. In the Department's opinion, it is posible to expand the scope of the private pension system within the framework of full ERISA protections.

We believe that the combination of early retirement and projected demographic changes merits concern but not alarm. It is possible to deal with these changes without radically cutting back the options afforded to older persons.

Question 7. You state that the labor force participation rate for men 55 and over is expected to drop from 48 percent now to 35 percent in 2000. For older women, it is expected to decline from 23 percent to 19 percent during this same period. What assumptions are made in arriving at his rate of decline? What has been the history of accuracy of labor force projections for the 55+ group in the past?

Response. The BLS labor force projections cited in the prepared statements were developed by applying projected labor force participation rates to Census projections of the number of persons in specific age brackets (55–59, 60–64, etc.). The projections for the over-55 participation rate cited in our testimony are an aggregation of these different age brackets, and thus reflect the shifting age distribution within the older population as well as changing labor force behavior.

The BLS analysts developed separate projections for three different sets of assumptions:

—In series A, the participation rate for each age/race/sex cohort within the over-55 population is assumed to remain constant at its 1977 rate. This is not a realistic assumption, but serves as a "baseline" case to isolate the effect of demographic shifts within the over-55 age group. In series A, the participation rate for over-55 males would drop from 47.5 in 1978 to 44.5 by 2000; for women, it would drop from 22.6 to 21.0.

—In series B, it is assumed that the cohort-specific participation rates will be stable until 1980, due to the recent mandatory retirement changes, but will then continue to fall at one-half the trend rate for 1970–1977. This would result in the participation rate for over-55 men dropping to 34.5 by 2000; the rate for women would drop to 18.6. This projection reflects the intermediate assumptions and was used in our prepared statement.

—In series C, cohort-specific participation rates are assumed to continue dropping at the 1970–1977 trend rate, without interruption. The participation rates for over-55 men and women would decline to 23.4 and 15.9, respectively, by 2000. This is an extreme scenario. It is not expected that participation will decline as rapidly as series C suggests, since the 1970–77 trends on which it is based reflect two recessionary periods.

BLS labor force projections are continually revised as a result of testing the assumptions against actual experience. Past projections have shown some tendency—which we believe has been remedied in this latest series—to underestimate the trend toward early retirement. Also, the labor force behavior of adult women in general has been difficult to model over the past decades. Overall, though, the BLS projections have had a good record for accuracy. The 1965 projections, for example, overestimated the size of the over-55 labor force in 1970 by only 37,000 persons, for an error marging of less than 3 percent. The 1965 figures overstated the 1975 over-55 labor force by 1.7 million; however, the error margin was probably badly inflated by the 1975 recession.

TABLE 1.—PROJECTED TOTAL LABOR FORCE PARTICIPATION RATES OF PERSONS 55 AND OVER, BY AGE AND SEX, ACCORDING TO 3 DIFFERENT ASSUMPTIONS[1]

Series and age group	Males						Females					
	1978	1980	1985	1990	1995	2000	1978	1980	1985	1990	1995	2000
A. High:												
55 plus	47.5	47.2	46.1	43.7	42.9	44.5	22.6	22.2	22.1	20.9	20.1	21.0
55 to 59	83.2	83.2	83.1	80.8	80.7	80.8	48.1	48.1	48.1	48.1	48.1	48.1
60 to 64	62.9	62.9	62.8	62.7	62.7	62.7	32.9	32.9	32.9	32.9	33.0	32.9
65 to 69	29.4	29.4	29.5	29.4	29.4	29.4	14.6	14.6	14.3	14.6	14.6	14.7
70 to 74	19.2	19.2	19.2	19.2	19.2	19.3	7.4	7.5	7.7	7.5	7.4	7.5
75 plus	9.4	9.4	9.4	9.4	9.4	9.4	2.7	2.7	2.9	2.9	2.7	2.7
B. Medium:												
55 plus	47.5	47.2	43.3	36.8	35.4	34.5	22.6	22.2	21.4	19.3	18.3	18.6
55 to 59	83.2	83.2	80.7	78.2	75.8	73.4	48.1	48.1	47.6	47.1	46.6	46.1
60 to 64	62.9	62.9	59.8	55.2	51.4	47.3	32.9	32.9	31.9	31.0	30.0	29.0
65 to 69	29.4	29.4	25.2	20.8	16.4	12.2	14.6	14.6	13.4	12.7	11.9	11.1
70 to 74	19.2	19.2	17.6	16.0	14.4	12.9	7.4	7.5	7.1	6.5	5.9	5.4
75 plus	9.4	9.4	8.3	7.2	6.1	5.0	2.7	2.7	2.6	2.4	1.9	1.6
C. Low:												
55 plus	46.4	43.3	37.9	29.4	25.8	23.4	22.6	21.8	18.5	18.0	15.9	15.9
55 to 59	82.2	80.4	80.2	70.6	65.7	60.9	48.0	47.5	46.6	45.6	44.6	43.6
60 to 64	61.4	58.3	50.8	43.2	35.7	27.9	32.5	31.7	27.2	27.8	26.0	24.0
65 to 69	27.7	21.1	12.5	4.1	1.9	1.9	14.2	13.4	11.4	9.7	8.0	6.4
70 to 74	18.6	17.3	14.1	10.8	7.7	4.6	7.2	6.8	6.0	4.8	3.7	2.7
75 plus	8.9	8.0	5.8	3.6	1.6	1.2	2.6	2.4	2.0	1.5	1.2	1.2

[1] A. High series assumes constant 1977 annual average rates for each age-sex-race subgroup of the population. B. Medium series assumes constant rates to 1980, then a drop at ½ the trend rate for 1970–77. C. Low series assumes continuation of the 1970–77 trend, unabated.

Question 8. The 1978 Age Discrimination in Employment Act Amendments direct the Secretary of Labor to conduct a study concerning the effect of raising the upper age limit of the ADEA to 70 as well as the feasibility of eliminating the upper age ceiling entirely. Your letter of July 12, written in response to a committee inquiry, says you will make every effort to issue an interim report by January 1981, and a final report by 1982. When do you expect this study to begin?

Question 9. The Department of Labor's annual report under the ADEA has for 10 years referred to a study in progress under section 5 of the act to examine "the institutional and other arrangements giving rise to involuntary retirement." To date, no satisfactory study has been completed. When do you propose to complete this study? Will this be part of the overall study mandated by section 6 of the 1978 amendments or will it be handled separately? What are your specific plans and timetables to address this issue?

Response to questions 8 and 9. Under section 5 of the ADEA, the Secretary of Labor is directed to "undertake an appropriate study of institutional and other arrangements giving rise to involuntary retirement and report his findings and any appropriate legislative recommendations to the President and Congress." Section 6 of the 1978 amendments amended section 5 of the ADEA to specify that the study of involuntary retirement shall include: an examination of the effect of raising the upper age limit of the act to age 70 for non-Federal coverage, determinations as to the feasibility of eliminating the age limit or raising it above 70 years of age, and an examination of the effects of two exemptions. One of the exemptions pertains to certain executive policy-making personnel entitled to pensions of at least $27,000 a year; the other pertains to tenured faculty employed in institutions of higher education and is set to expire on July 1, 1982. The amendments specify that the study may be undertaken directly by the Secretary of Labor or by contract or other arrangement, and stipulate that the Secretary is to submit an interim report on the section 5 study by January 1, 1981, and a final report by January 1, 1982.

We have been working to develop an appropriate approach to fulfill the study requirements of section 5 as amended by section 6 of the 1977 amendments, including an adequate staff capacity to oversee contract work. We expect to publish a request for proposals for contract work on the study shortly. Interest in possible contract work on the study has been indicated by several research-oriented organizations. We expect to complete the study within the time requirements of the act.

Question 10. The Senate version of the 1978 Older Americans Act Amendments directs the Department of Labor to give special consideration to minority organi-

zations in awarding grants and contracts under the senior community service employment program. Earlier this month, funding for the senior community service employment program increased significantly. What are the Department's plans, if any, to award contracts to minority organizations, such as the National Caucus on the Black Aged and the National Association of Older Persons?

Response. The fiscal year 1978 appropriation did allow for a considerable expansion of the senior community service employment program. Mindful of the Senate's intention that minority organizations begin to play an active role in the administration of the program, we reserved about $5.4 million for projects with new national-level sponsoring agencies. In awarding these funds we are using a competitive process that has entailed the public solicitation of grant applications, which were reviewed and rated by a panel of knowledgeable Federal employees drawn from the Department of Labor, the Administration on Aging, the Department of Agriculture, and ACTION. The rating criteria used by the panel gave special consideration to applicant organizations that showed an orientation to the employment-related needs of older persons from minority groups.

Of the 10 applications received, the panel recommended that three be approved for funding. These were the applications submitted by the National Urban League, the Association National Pro Spanish Speaking Elderly, and the National Center on the Black Aged, all three being minority oriented organizations.

The responsible officials in the Employment and Training Administration concurred with the panel and, as a result, we are now negotiating the final terms and conditions of funding with these organizations. I am told that the negotiations are proceeding smoothly and that we will probably be executing the grants in the very near future. The full $5.4 million will be awarded to provide for projects that will make employment available to more than 1,200 persons in 21 different States.

Question 11. What is the Department of Labor doing to promote job performance evaluation and mid-career training?

Response. The Department of Labor, through the auspices of its research and development efforts, has sponsored several projects of varying scale to examine various aspects of mid-career training. Most notable among these was a study conducted under the authority of the Manpower Development and Training Act of 1962 to determine what the potential was for a program of job upgrading. The focus of the Department's employment and training efforts in the past few years, however, has been toward finding jobs for unemployed people. It is our hope that, as the economy improves and the employment picture gets better, DOL will be in a better position to mount programs to deal with some of the problems of mid-career training and to examine further the quality of performance of those graduating from our training programs. In this regard, both the Senate passed and House reported versions of CETA contain a provision authorizing prime sponsors to conduct upgrading programs through agreements with public and private employers.

Question 12. The House of Representatives recently passed the Federal Employees Flexible and Compressed Work Schedules Act (H.R. 7814) and the Federal Employees Part-Time Career Employment Act (H.R. 10126). What is your Department's position concerning these two bills?

Response. The administration has expressed strong support for H.R. 7814. The legislation represents a reasonable and balanced approach to the testing and evaluation of flexible and compressed schedules in Federal agencies. Therefore, we favor enactment of this legislation.

As for the provision of part-time employment, this Department strongly supports such efforts. Part-time employment is one method of providing a wider selection of work opportunities, especially for older workers. We encourage private industry to adopt such arrangements and we support as well governmental efforts. In this regard, the administration has taken steps to increase part-time employment in the Federal Government. On September 16, 1977, the President called upon all agencies to establish innovative programs to expand permanent part-time opportunities. As a result of this directive, the number of permanent part-time workers increased by about 20 percent during the last year at a time when the total permanent work force *dropped* by over 6,000 positions.

As for the specifics of the legislation as passed by both the House and the Senate, we are aware that the Office of Management and Budget and the Civil Service Commission have expressed opposition to certain provisions. We would defer to these agencies on these matters.

RESPONSE TO QUESTIONS FROM SENATOR EDWARD W. BROOKE

Question 1. How many age discrimination cases had DOL received during the past 3 years.

Response. During fiscal year 1975 through fiscal year 1977, including the fiscal year 1976 transition quarter, 18,011 age discrimination complaints were filed against 15,997 establishments. This represents an annual average of approximately 5,540 complaints to date. Complaints have been received at about the same rate in fiscal year 1978.

Question 2. How many age discrimination cases does DOL bring to court?

Response. The ADEA permits both private suits and suits by the Department. Departmental suits have emphasized precedential litigation and pattern and practice cases. Legal action by the Department of Labor over the past 10 years has resulted in the establishment of a new body of law in the field of discrimination against older workers. Since the act's effective date on June 12, 1968, the Department has instituted over 450 court actions. In calendar year 1977, the Department filed 86 lawsuits, two petitions for adjudication of civil contempt, and one petition to enforce an investigative subpena. Also, at the appellate level in 1977, the Department filed nine briefs in cases brought by the Secretary and 16 briefs as amicus curiae in cases brought by private individuals.

Question 3. What are the criteria for telling a complainant that he or she should sue an employer on his/her own? In other words, what are the reasons that DOL takes some cases and tells other persons to sue on their own?

Response. Departmental litigation priorities emphasize obtaining favorable court decisions on unsettled issues of law and prosecuting large pattern and practice cases. While this does not preclude legal action by the Department in small cases, it delineates the extent to which the Department can accept such cases for litigation. Complainants are neither encouraged nor discouraged from litigating privately; they are fully advised of the choices available to them and are then left to make their own decisions based on the advice of private counsel. At least 433 private suits (which typically involve only one or a few aggrieved individuals) were filed in calendar year 1977. In past years, over half of all private ADEA suits were dismissed for procedural reasons without a hearing on the merits. Under the 1978 amendments to the act, major procedural impediments to private suits were removed, and it is anticipated that the impact of private litigation under the act will increase.

In the selection of smaller cases which do not involve precedential issues, the Department tends to emphasize suits that meet the following criteria:

(1) Prima facie evidence of discrimination appears to be strong;

(2) The harm to the discriminatees is substantial—e.g., discharge as contrasted to failure to promote; and

(3) The enforcement impact of the suit may be substantial—e.g., the employer has a significant segment of the local labor force or the practice is one believed to be common in the industry.

Question 4. What would you estimate the average cost to the individual for bringing his/her own age discrimination case to court?

Response. As data on the costs to plaintiffs of private ADEA suits are not reported to us, we do not have such an estimate. We note, however, that the statute permits plaintiffs to seek recovery of wage and related losses (plus an equal amount as liquidated damages in the event of willful violations) and, in addition, reasonable attorneys' fees and court costs.

Question 5. Do large employers tend to dismiss individually brought age discrimination complaints as of no consequence because they may believe that few people discriminated against have the time or the money to sue on their own?

Response. We are not in a position to speculate on employer motivations behind such decisions and objective data is not available. The Department must attempt to conciliate a resolution of ADEA charges before private plaintiffs may sue, and the possibility that the Department may initiate an investigation which would include other individuals is always a factor mitigating against this tendency on the employer's part.

Question 6. Some persons have suggested that the agency administering the ADEA should be given "cease and desist" authority. Would you agree?

Response. To date, the Department has not assessed the need for cease and desist authority. President Carter's Reorganization Plan No. 1 of 1978, effective May 6, 1978, provides for the transfer of ADEA enforcement from the Department of Labor to the Equal Employment Opportunity Commission on July 1, 1979. In

light of this, and the fact that enforcement of Federal equal employment opportunities laws is continually evolving, you may wish to obtain the views of the EEOC on this issue.

STATEMENT OF DONALD ELISBURG, ASSISTANT SECRETARY, DEPARTMENT OF LABOR, BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS, U.S. SENATE, MARCH 6, 1978

Mr. Chairman and members of this committee, I appreciate this opportunity to appear here today to discuss with you Reorganization Plan No. 1 of 1978. As you know, major portions of the Federal equal employment opportunity program are lodged in the Department of Labor and will be affected by the plan. With me today to discuss the plan and its effect on the Department of Labor are Xavier Vela, Administrator of the Wage and Hour Division; and Weldon Rougeau, Director of the Office of Federal Contract Compliance Programs.

Before I begin, I want to state our support for the reorganization of the Federal EEO programs as spelled out in the plan. The Department of Labor worked very closely with the Office of Management and Budget as this proposal evolved. Reorganization Plan No. 1 is a workable solution to the many deficiences in the Federal equal employment opportunity programs. It is most important that the gains and losses in organizational functions by the Department of Labor be viewed in the context of the total plan. The end result will be a major step forward in assuring equal employment opportunities for all Americans.

Briefly, the plan will move the enforcement of the Age Discrimination in Employment Act (ADEA) and the Equal Pay Act (EPA) to the Equal Employment Opportunity Commission (EEOC) effective July 1, 1979. Enforcement of these statutes is currently lodged in the Wage and Hour Division of the Employment Standards Administration. The ADEA promotes the employment of older workers between 40 and 65 years of age based on ability rather than age; prohibits arbitrary age discrimination in employment; and helps employers and employees find ways to meet problems arising from the impact of age on employment. The EPA provides that employers may not pay employees of one sex wages at rates lower than those paid employees of the opposite sex, employed in the same establishment, for equal work on jobs requiring substantially equal skill, effort, and responsibility which are performed under similar working conditions.

Transfer of the ADEA enforcement to the EEOC involves the transfer of 119 positions and $3.5 million; the EPA, 198 positions and $5.3 million. These figures include legal personnel.

We firmly believe in the Department of Labor that the two programs which will be transferred to the EEOC in mid-1979 have made major strides in fulfilling their stated purpose during the past year. This administration has been fully committed to improvements in their enforcement. We have made commitments of additional resources to overcome prior deficiencies; and we will continue this effort during the transition period, giving priority to full enforcement efforts on these programs.

During fiscal year 1977, there were complaints against 5,054 establishments alleging violations of the ADEA, and 5,600 investigations and conciliation actions were taken in 5,006 establishments. Monetary violations amounting to a record $10 million affecting 1,943 individuals were disclosed—$8.9 million affecting 1,707 persons were disclosed as a result of fact-finding investigations, and the remainder resulted from conciliations in which employers, employment agencies, and labor organizations consented to pay while not being formally charged with or admitting to violations of the act. During calendar year 1977, the Department filed 86 lawsuits under the ADEA.

As a result of the Department of Labor enforcement effort during fiscal year 1977, 1,293 individuals who had suffered age discrimination were aided. A total of $2.7 million in lost income was restored to 744 individuals in 383 establishments, and 532 persons who were hired or reinstated are projected to earn $4.1 million a year in wages. Also, employers agreed that they would consider applicants aged 40 to 65 for anticipated job vacancies totaling 14,584 a year.

The Wage and Hour Division's investigations disclosed illegal advertising in 508 establishments, illegal discharges affecting 648 individuals in 232 establishments, and illegal refusals to hire in 166 establishments affecting 1,380 persons.

The enforcement effort under the Equal Pay Act showed similar beneficial results during fiscal year 1977. Almost $16 million was found owing to 19,382 employees for equal pay violations as a result of compliance actions by the

Wage and Hour Division. Almost 13,000 employees benefited from restored income of nearly $7 million during that year. During the fiscal year, complaints were received against 2,742 establishments, over 650 of which involved executive, administrative, and professional employees. Also, during fiscal year 1977, 80 equal pay lawsuits were filed and several significant cases were resolved.

I am confident that the joining together of the equal pay and age discrimination programs with the title VII program will mean major improvements in the total Federal effort to eliminate discrimination from the Nation's work scene. In the case of the ADEA, consolidation will unify compatible standards, since the ADEA was modeled on title VII. In the case of the EPA, consolidation will unify all types of sex-related discrimination protection in one agency. As I indicated previously, the Department of Labor supports the reorganization proposal, and I can assure you of our utmost cooperation to accomplish a smooth transition.

Turning now from the reorganization plan, I would like to discuss the contract compliance program. As President Carter indicated in his message to the Congress, an executive order will consoliate the enforcement of the Federal contract compliance programs into the Department of Labor on October 1, 1978. The Executive order consolidation will mean the transfer of 1,571 positions and $33.1 million.

As you know, the Office of Federal Contract Compliance Programs (OFCCP) now has an oversight role in the enforcement of Executive Order 11246, which prohibits Federal contractors and subcontractors from discriminating in employment because of race, color, religion, sex, or national origin. However, regardless of discrimination, these employers must also take affirmative action to ensure equal opportunity in all areas of employment. In addition to the Executive order program, OFCCP also administers equal employment opportunity programs for handicapped workers and Vietnam era and disabled veterans. Section 503 of the Rehabilitation Act of 1973 prohibits Federal contractors and subcontractors from discriminating in employment because of physical or mental handicap, and requires affirmative action to employ and advance in employment qualified handicapped workers. Section 402 of the Vietnam Era Veterans' Readjustment Assistance Act of 1974 prohibits Federal contractors and subcontractors from discriminating in employment, requires them to take affirmative action to employ and advance in employment qualified Vietnam era veterans during the first 4 years after their discharge, and requires them to take such action for certain qualified disabled veterans throughout their working lives.

These programs establish coverage of employers through a contractual relationship. The Executive order is, of course, based upon the contracting authority of the President while the section 503 and section 402 programs are established by legislation. Employer obligations under these programs are contract performance standards agreed to in return for payment from Federal tax dollars; and thus Federal court decisions on the Executive order program have generally held that its authority to eliminate discrimination is broader than and not limited by any provision in other Federal equal employment opportunity laws such as ADEA, EPA, and title VII.

During the past year we have made major improvements in the Federal contract compliance programs. The enforcement of the Executive order program is now at the highest point since the inception of the program. Prior to 1977, the Department had succeeded in debarring only 13 contractors from Government contract work. Since January 1977, debarment actions have been completed against three companies. Administrative enforcement actions are currently pending against 14 other companies, and 5 other enforcement cases are pending in the courts.

Of course, while we will not hesitate to enforce the Executive order against employers who discriminate or who refuse to take affirmative action, we are in the business of achieving compliance, not debarring contractors. We would rather have a contractor agree to a meaningful conciliation agreement that to lose a Government contract. In that regard, we have been successful in achieving substantial compliance on a voluntary basis. Since 1969, an estimated $200 million has been restored to workers under the Executive order, some of which was obtained jointly under the Executive order and title VII.

The Department also has taken several initiatives to substantially improve its management capabilities. The Department has effected a reduction in the number of compliance agencies enforcing Executive Order 11246. New and revised regulations will soon be issued to revise the format for compliance by construction contractors and subcontractors and to expand protection of women and minorities

in the construction industry. Training of compliance officer staff has been expanded and is continuing. Improved management information systems are being developed. Improved coordination with the EEOC, Department of Justice, and the Civil Service Commission has resulted in the issuance of joint guidelines on employment selection procedures. In addition, within the Labor Department, the OFCCP and the Employment and Training Administration have entered into an agreement under which we expect to increase minority employment and the entrance of women into nontraditional jobs.

In the veterans and handicapped programs, new procedures have been developed for conducting comprehensive compliance reviews, including procedures for evaluating contractor affirmative action programs in an effort to reduce systemic discrimination. Five cases involving violations of the handicapped worker regulations are at the point of administrative hearing. Another 30 cases are in preparation. In the 4 years of the handicapped worker program, there have been 4,400 complaints filed, with nearly 2,500 having been received in the past year. In addition, under the Vietnam era veterans program, 500 individual complaints have been received and most have been concluded. Also, another 2,000 violations have been alleged for failure to meet the mandatory job listing requirement for veterans.

More importantly, we have implemented a new enforcement policy of directed compliance reviews across the country involving violations of the veterans and handicapped requirements. A total of 300 directed reviews are underway. Under this new enforcement policy, the Labor Department will continue to investigate individual complaints but will also conduct compliance reviews of randomly selected contractors and subcontractors.

Nevertheless, our ability to "manage" the efforts of the compliance agencies has been encumbered by fragmentation, and lengthy and cumbersome channels of communication. Our experience has been that such a division of responsibilities simply does not work. Consolidation will achieve the following: promote consistent standards, procedures, and reporting requirements; remove contractors from the jurisdiction of multiple agencies; prevent an agency's equal employment objectives from being outweighed by its procurement and construction objectives; produce more effective law enforcement through unification of planning, training and sanctions and, as concluded by the Paperwork Commission, reduce paperwork and improve management information systems. We are convinced the consolidation of the enforcement of the Executive order into the Department of Labor will contribute greatly to the overall success of the President's plan.

In summary, Mr. Chairman, the comprehensive reorganization of the Federal EEO effort will go far in promoting equal employment opportunities for our citizens. The Department of Labor is totally committed to a smooth transition and to a vigorous effort in the years ahead. My colleagues and I will now be happy to answer any questions you may have.

STATEMENT OF JAMES T. MCINTYRE, JR., ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY, COMMITTEE ON GOVERNMENT OPERATIONS, U.S. HOUSE OF REPRESENTATIVES, MARCH 7, 1978

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you today. I would like to summarize a statement which I am submitting for the record.

On February 23, 1978, the President announced his plan to reorganize and improve this Nation's equal employment enforcement efforts. This plan makes the Equal Employment Opportunity Commission the principal Federal agency in fair employment enforcement. Together with actions the President will take by Executive order to merge the contract compliance program into the Department of Labor, it consolidates Federal equal employment opportunity activities and lays, for the first time, the foundation of a unified coherent Federal structure to combat job discrimination in all its forms. The President has stated that one of the prime objectives of this administration is improvement in the management and enforcement of the Nation's civil rights laws. This plan represents a step in that direction.

The Government's equal employment programs have had only limited success. They have been beset by problems. My testimony on pages 2–5 provides examples of the burdens which the present enforcement structure has imposed both on

employers and the persons these laws were intended to protect. Let me mention two of the examples:

—In 1977, a district office of the EEOC duplicated an investigation of the Department of Labor's Wage and Hour Division on a sex discrimination charge against a large refrigerator manufacturer. The EEOC investigator was not made aware of the DOL investigation until the EEOC's investigation was nearly complete.

—In a case involving a coal company, the EEOC found no probable cause for an individual charging party but did find cause on issues of denial of employment to blacks as a class. In 1977, while attempting conciliation, it was discovered that the Department of the Interior had already approved the company's affirmative action plan and the goals and timetable it had set for the employment of blacks.

Many studies have verified these problems. For example, in April 1977, the Commission on Federal Paperwork made this observation about Federal equal employment opportunity programs:

"[I]t has been apparent that the welter of confusing laws, regulations, policies and practices of a multitude of Federal agencies has militated against effective enforcement and informed public policy."

Similar findings and conclusions were reached by the Commission on Civil Rights in reports issued in 1975 and 1977 and by the House Subcommittee on Equal Opportunities last year.

The Office of Management and Budget's analysis identified several problems related to organizational deficiencies in the present equal employment enforcement program. These problems, which I recount on pages 6-8 of my testimony include:

—Overlapping jurisdiction.
—Application of inconsistent standards.
—Duplicative investigations.
—Waste of resources.
—Confusion over procedures.
—Inadequate attempts at coordination.
—Poor management.
—Conflict of interest between program and equal employment responsibilities.
—Lack of accountability.

Many of these problems can be attributed to piecemeal development of the Federal equal employment enforcement effort over a period of more than 30 years. The time is ripe for bringing order and effectiveness to our equal employment programs.

The plan proposed by the President takes steps toward consolidating major equal employment functions. Various components of the plan are phased in over a period of time to allow for management improvements and avoid unnecessary disruption.

The plan assigns to the EEOC the role of principal Federal agency in fair employment enforcement. The EEOC was chosen for this responsibility for two reasons. First, it is the only existing agency whose paramount mission is combatting employment discrimination. Second, its size, experience, and scope of activities are consistent with undertaking such a role. Although the agency has suffered from image and management problems, such occurrences are not uncommon in a young agency administering a highly controversial and complex program. More important, the EEOC has initiated a major internal reform program which already has generated substantial progress, and is likely to improve the agency's performance quite sharply in the long run.

The major elements of this reform program are a streamlined field structure consisting of 22 district and 37 area offices, a new training program, a new charge-intake process, a rapid-charge processing system, and the creation of separate backlog units in each of its district offices.

The Office of Management and Budget has been monitoring EEOC's reforms closely and will take steps to ensure that timetables are adhered to and periodic evaluations of new systems and procedures are conducted. (Details on the initial impact of the EEOC reforms appear in appendix B of the report entitled "Reorganization of Equal Employment Opportunity Programs" which I request be included in the record.)

The reorganization plan authorizes the following transfers of program responsibilities:

—On July 1, 1978, abolish the Equal Employment Opportunity Coordinating Council and transfer its duties to the EEOC.

—On October 1, 1978, shift enforcement of equal employment opportunity for Federal employees from the Civil Service Commission to the EEOC.
—On July 1, 1979, shift responsibility for enforcing both the Equal Pay Act and the Age Discrimination in Employment Act from the Labor Department to the EEOC.

These transfers are explained on pages 15–22 of my testimony. Let me summarize:

By abolishing the Equal Employment Opportunity Coordinating Council and transferring its responsibilities to the EEOC, the plan places the Commission at the center of equal employment opportunity enforcement. Armed with this new coordinating responsibility, the EEOC will develop substantive equal employment opportunity standards applicable to the entire Federal Government, standardize Federal data collection procedures, create joint training programs, and develop Government-wide complaint and compliance review priorities and methodologies. This transfer will help to limit duplication and inconsistency among the equal employment programs.

The transfer of the Civil Service Commission's equal employment opportunity responsibilities to the EEOC will insure uniform implementation of title VII. Today, the EEOC defines the equal employment rights of private employees and employees of State and local governments. It is the agency that possesses the greatest expertise and experience in dealing with equal employment problems. For Federal employees, however, the function is performed by the Civil Service Commission.

Close coordination between the EEOC and the CSC on Federal personnel matters will be necessary. In order to insure that the transfer in no way undermines the objectives of the civil service reforms which the administration is submitting to Congress, the EEOC and CSC are developing compatible complaint appeals systems. The plan authorizes the EEOC to delegate to the CSC or its successor agency the opportunity to make preliminary determinations on discrimination matters which are raised in conjunction with appeals of adverse actions. The EEOC retains the right to review this determination.

The plan transfers enforcement of the Equal Pay Act to the EEOC. The Equal Pay Act and title VII are essentially duplicative. Transfer of the enforcement of the act to the EEOC, therefore, would minimize overlap, permit better allocation of resources, and centralize Federal enforcement of the prohibitions against sex discrimination in employment.

The plan also transfers the enforcement of the Age Discrimination in Employment Act to the EEOC. There is now virtually complete overlap in the employers, labor organizations, and employment agencies covered by title VII and by the Age Discrimination in Employment Act. This overlap is burdensome to employers and confusing to victims of discrimination.

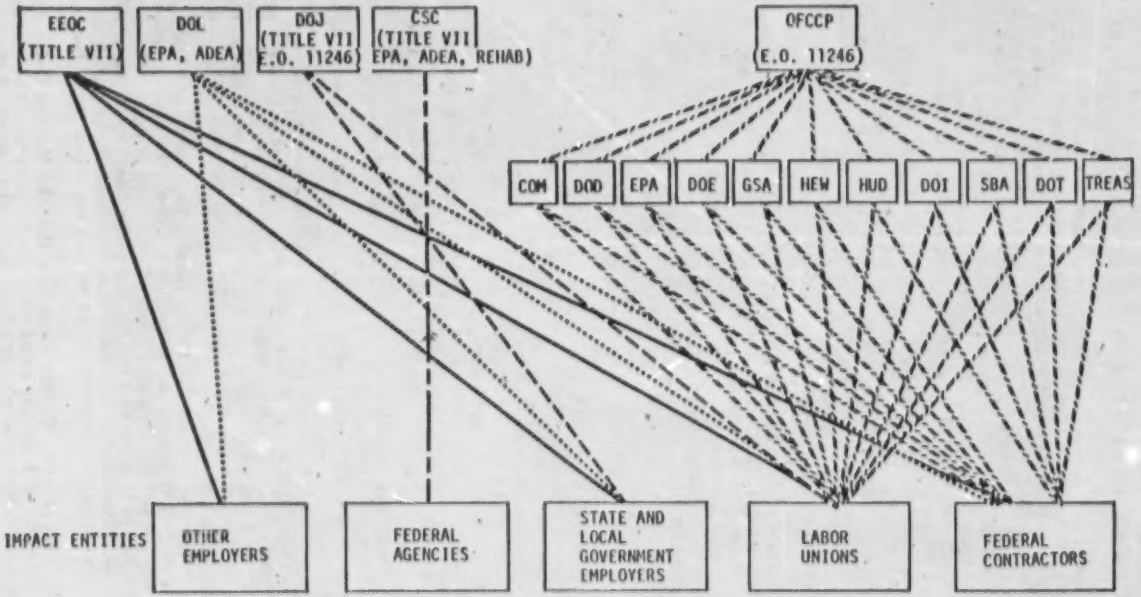
Finally, the plan reinforces the intent of the Congress that the Attorney General may initiate title VII "pattern or practice" cases against State or local governments without the necessity of awaiting the referral of complaints from the EEOC—an issue now disputed in the courts.

In addition to the changes proposed in the plan, the President intends to issue an Executive order, effective October 1, 1978, to consolidate the contract compliance program into the Department of Labor. This consolidation will promote consistent standards, procedures, and reporting requirements, remove contractors from the jurisdiction of multiple agencies; prevent an agency's equal employment objectives from being outweighed by its procurement and construction objectives; and produce more effective law enforcement through unification of planning, training, and sanctions.

While we do not anticipate that the reorganization contained in this plan will result in an overall reduction in expenditures, there will be administrative savings attendant to the creation of a more efficient and manageable enforcement program. Reduction in program overlap, inconsistent data collection systems, and duplicative investigations will mean higher productivity, reduced burdens on employers, and improved services to those seeking relief from discriminatory practices.

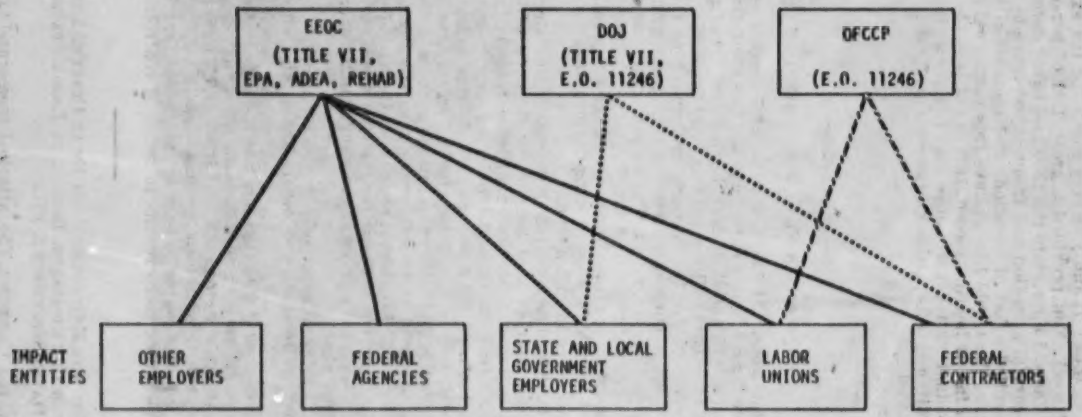
The underlying premise of these changes is that the Federal Government will develop a coherent and unified equal employment program. The inconsistency, duplication, and spinning of wheels which have led to much of the frustration voiced by those the laws are intended to protect and employers and unions attempting to comply with the laws must begin to disappear. We believe that this plan represents a major step in that direction. We hope that you will join the President in moving toward an equal employment opportunity program in which all Americans can place their trust.

PRESENT ENFORCEMENT STRUCTURE
FOR MAJOR EQUAL EMPLOYMENT OPPORTUNITY PROGRAMS*



*TITLE VII, EQUAL PAY ACT (EPA), AGE DISCRIMINATION IN EMPLOYMENT ACT (ADEA), SECTION 501 OF REHABILITATION ACT (REHAB), EXECUTIVE ORDER 11246

PROPOSED ENFORCEMENT STRUCTURE
FOR MAJOR EQUAL EMPLOYMENT OPPORTUNITY PROGRAMS*



*TITLE VII, EQUAL PAY ACT (EPA), AGE DISCRIMINATION IN EMPLOYMENT ACT (ADEA), SECTION 501 OF REHABILITATION ACT (REHAB), EXECUTIVE ORDER 11246

ITEM 3. LETTER AND ENCLOSURE FROM SENATOR FRANK CHURCH, TO EWAN CLAGUE, LACONIA, N.H., CONSULTANT, AND FORMER COMMISSIONER, BUREAU OF LABOR STATISTICS, DATED JULY 31, 1978

DEAR DR. CLAGUE: Thank you very much for the excellent testimony at our hearing last week. You provided a great deal of perspective, along with your very helpful facts. I appreciate the time and effort devoted to your statement. It will receive careful attention and frequent reference as our study continues.

I have compiled a list of questions and requests either made at the hearing or added since. We would like to have this additional material by September 5 for inclusion in our hearing record. If it is not possible to give a final statement on any individual matter, I would be glad to have an interim response indicating when the additional information will become available.

With best wishes.

Sincerely,

FRANK CHURCH,
Chairman.

[Enclosure.]

QUESTIONS FROM SENATOR FRANK CHURCH

1. Your statement, "At inflation rates of 7 percent or more, the early retiree would receive higher benefits after age 65 than the fellow worker who continued working until age 65 and then draw his benefits," is of great concern to this committee. Would you care to illustrate this point further?

2. Your reference (p. 16) to early retirement as the potential "time bomb" which would upset current retirement income programs is equally worthy of close attention. Can you give tentative projections as to the timespan for such a calamity, if present trends continue?

3. You request "more intensive study of the early retirement problem in order to find out what could be done to bring the situation under control." What factors should be considered in such a study?

4. This committee has reported that persons on retirement income budgets pay proportionately more of that income for items in which the greatest price increases are occurring: food, shelter, utilities, transportation, and health care. Do you agree with that statement? Would you care to supplement your earlier remarks about the need for a special cost-of-living index for older persons?

5. What suggestions would you make for changes in Department of Labor statistical reporting to better reflect problems of middle-aged and older workers?

6. How much would an elderly person's purchasing power be reduced if he retired today on a $10,000 annual pension at the age of 65 if our annual inflation rate would be 6 percent per year for the next 12 pears? What would be the effect under the same circumstances if the annual inflationary rate would be reduced to 4 percent per year?

7. Would the development of new work patterns—such as part-time employment, phased retirement, and others- have any effect at all in moderating inflation?

8. It is my understanding that much of the information about early retirement in State and local governments is quite often unavailable or incomplete. Would you agree with this statement? And if so, is this another reason that you call State and local early retirement a "time bomb"?

9. Today, inflation seems to be more persistent than it used to be. Why is our Nation not obtaining more results in terms of controlling rising prices?

ITEM 4. LETTER AND ENCLOSURE FROM EWAN CLAGUE,[1] LACONIA, N.H., CONSULTANT, AND FORMER COMMISSIONER, BUREAU OF LABOR STATISTICS, TO SENATOR FRANK CHURCH, DATED SEPTEMBER 5, 1978

DEAR SENATOR CHURCH: The attached memorandum provides the committee with my answers to the questions which you raised in your letter following the July hearings.

I have answered each of these question to the best of my ability within the time available. I hope that the answers may provide a basis from which research analysts could develop more and better information.

Yours,

EWAN CLAGUE.

[Enclosure.]

[1] See statement, p. 135.

RESPONSE TO QUESTIONS FROM SENATOR FRANK CHURCH

Question 1. Your statement, "At inflation rates of 7 percent or more, the early retiree would receive higher benefits after age 65 than the fellow worker who continued working until age 65 and then drew his benefits," is of great concern to this committee. Would you care to illustrate this point further?

Response. The statement, as worded, gives the wrong impression and should be modified. A worker drawing benefits at age 62 would have to take a 20 percent reduction from the full benefits due at age 65. Instead of $300 a month, the early retiree would get $240 the first year; at a 7 percent inflation adjustment he would get $257, $275, and $294 a month at age 65. In the meantime, a fully employed worker receiving wage increases of 5 percent a year would obtain benefits higher than $300 at age 65, substantially ahead of the early retiree. For the fully employed worker it is advantageous to postpone retirement until age 65 with full benefits based on somewhat higher average earnings.

However, there are a number of factors which have the effect of stimulating early retirement. These are set forth in several issues of the Social Security Bulletin.[1] The question posed by Karen Schwab in the August 1974 Bulletin is: "How many individuals are encouraged to leave the labor force because of the availability of early benefits?"

One potent factor is loss of a regular job with little hope of getting another. With the reduced benefits cited above, the early retiree would draw over $9,200 in benefits in years 62–64, and then draw over $3,500 in benefits at age 65. An individual waiting until age 65 to obtain the regular benefits would require at least several years to equal the early benefits obtained by the retiree at age 62.

Anothr factor of greater importance is the growing number of workers retired from private industry at ages 62, 60, 55 and even as early as age 50. Assuming that man such workers have already retired before age 62, they have plenty of incentive to take social security at the earliest available date. There is not much advantage (and some possible disadvantage) in waiting three retired years to get social security at age 65.

Another case would be a husband retired at $300 a month with a wife aged 62 eligible for $200 a month, with a reduction to 80 percent for early retirement. The couple could draw immediately a joint benefit of $460 a month, a loss of only $40 a month, or 8 percent.

Additional examples could be cited, but these should be sufficient to show that for many elderly, men and women both, early retirement at moderately reduced benefits is preferable to a 3-year wait. Another advantage is that the purchasing power of the benefit is protected by the cost-of-living adjustment of the benefits each succeeding year. The statistics of early retirement demonstrate the extent to which the workers are purposely making what to them is a favorable choice.

All the above is now history. An entirely new situation has been created by the 1977 amendments which provide for indexing the workers' earnings in past years by the Consumer Price Index. This results in an entirely new calculation of retirement benefits for individual workers. It is not possible at this time to judge the impact that this new system might have on early retirement.

Question 2. Your reference (p. 16) to early retirement as the potential "time bomb" which would upset current retirement income programs is equally worthy of close attention. Can you give tentative projections as to the timespan for such a calamity, if present trends continue?

Response. The reference to a "time bomb" referred to the delayed impact of a retirement system during the early years when the system is expanding rapidly. When a retirement system is first established there are vast numbers of contributors and no retirees. Contributions come first, pensions later. When social security started in 1936, elderly persons were permitted to qualify with only six quarters of coverage. That basic requirement was increased year by year until the standard 10 years, or 40 quarters, was reached in 1946. Congress also limited the contributions during the war years (1941–45), since the reserve fund expanded rapidly, despite the low contribution rates. Then in 1950, with a growing reserve fund, Congress changed the rules and established only a five-year reserve.

The railroad retirement system in the United States was established on an entirely different basis. When the private railroad company systems were nationalized in 1935, all railroad workers (whether previously insured or not)

[1] November 1972, "Retirement History Study: Introduction"; August 1974, "Early Labor Force Withdrawal of Men"; September 1974, "Labor Force Status of Non-Married Women on the Threshold of Retirement."

were brought into the new program. What a worker needed was proof that he had been employed on the railroads for a long enough period to qualify for benefits. The result was that benefit payments constituted a substantial fraction of the incoming contributions. So the system began as a full-fledged retirement program. This was possible because the railroads had the necessary employment records (for the most part).

But for social security this would have been impossible; there were no such detailed past work records available. So social security had to undergo a long growth period before the system reached maturity; that is, when expanding coverage and benefit payments came into reasonable balance.

The civil service retirement system in the Federal Government began about World War I. It expanded during the 1930's and the war years and then became stabilized in the 1950's. There has been only moderate growth during the last 25 years. Since Federal retirement benefits are escalated twice a year by the Consumer Price Index, the result would be a doubling of the benefit payments for each individual by 1990, with nearly another doubling by the year 2000. Contribution rates of 14 percent (worker and Government 7 percent each) will not provide sufficient funds to pay the benefits. Some additional contributions will be necessary.

State and local government employees totaled about 4 million in 1950, but the number tripled in the next quarter century. That group has constituted the most rapidly growing segment of the U.S. labor force. In the earlier years, a considerable proportion of such workers were moderately or even highly political. A continuity of party control within the State or city insured job security; a political overturn could result in monumental dismissals, accompanied by new hirings. Well-established groups, such as police, firefighters, and teachers, became organized and were able to develop retirement systems for themselves. But the other State and local employees groups were not highly organized. Many of the clerical workers were women, of whom amoderately high proportion became married and dropped ont in order to rear a family.

It was in the 1960's that these relatively unorganized workers began joining unions and putting pressure on State and local governments for higher pay and better retirement. This is the most rapidly growing segment of organized labor in the United States.

The Nation's retirement problem in this area is that the rapid expansion of employment conceals the emerging financial problem. Statistics in this whole field are difficult to obtain. For the past, few adequate statistical records are readily available. For the future, new wages and salary scales, as well as new benefits, are being negotiated every year.

Perhaps the District of Columbia (on its way to becoming the 51st State) can serve as an example of this emerging situation. The following table shows annual employment in the D.C. government from the early 1950's to the present.

TABLE 1.—EMPLOYMENT IN THE DISTRICT OF COLUMBIA GOVERNMENT

Year	Employment (thousands)	
	Average	Increase
1951	19.5	
1956	22.1	2.6
1961	26.9	4.8
1962	28.7	.9
1963	29.1	1.3
1964	30.1	1.0
1965	32.1	2.0
1966	35.0	2.9
1967	37.2	2.2
1968	40.4	3.2
1969	43.4	3.0
1970	46.6	3.2
1971	49.0	3.4
1972	48.6	−.4
1973	48.1	−.5
1974	49.9	1.8
1975	[1] 51.4	1.5
1976	[1] 52.3	.9
1977	[1] 50.0	−2.3
1978 (June)	[1] 48.3	−1.7

[1] Including Metro.

D.C. Government employment grew slowly at first—only 2,600 in the 5 years, 1951–56, or about 500 employees per year. In the next 8 years through 1964, the average increase was about 1,000 employees per year. Then the rate multiplied. In the 7 years, 1965–71, D.C. employment increased by almost 19,000 (30.1 to 49.0)—a gain of nearly 63 percent. Then employment stabilized except for the expansion in Metro employment (the new underground transit system).

The important point here is that the retirement systems covering the above government employees are not funded, being paid for out of annual appropriations. Present benefit costs are moderate, based on the relatively small number of retirees from the recruits of the 1950's. But the 1965–71 recruits will become eligible in the 1990's. The combination of expansion and inflation will explode at that future time.

Some reccent congressional hearings have highlighted this retirement problem. In February 1978, the Senate Subcommittee on Governmental Affairs and the District of Columbia (chairman, Senator Thomas F. Eagleton) held hearings on proposed legislation covering the D.C. retirement systems of policemen, firemen, teachers, and judges. Senator Eagleton conducted the hearings on those four D.C. retirement systems.

The general conclusions were that D.C. has the most generous pensions of any State or local government in the United States. The disability provisions are practically unlimited. In 1969, nearly all D.C. policemen (98 percent) and firemen (99 percent) retired on disability. Subsequently, the proportions declined to 77 percent and 71 percent; and recently it was 65 and 67 percent. No city in the United States has as generous disability provisions as D.C.

The great significance of the disability decisions is that disability payments are largely exempt from income taxation. Mayor Walter Washington in his testimony emphasized that those provisions were legislated by the U.S. Congress and not by the D.C. government. Senator Eagleton agreed that these generous provisions were the responsibility of the Congress. He then went on to comment:

"The D.C. system is totally nonfunded, police and fire; marginally or meagerly funded for teachers. The time bomb in the District of Columbia ticks at a faster pace than elsewhere." [1]

It is likely that the disability legislation now under consideration for D.C. will be passed by the Senate and the House, thus introducing some moderation into the system. But this revision is only marginally related to the retirement system for other D.C. government employees who are many times as numerous as police and firemen. These other professional, administrative, and clerical employees do not have the same disability experience as police and firemen, nor do they have such liberal early retirement benefits. But the total cost is much higher. The D.C. government is quite in line with other States and localities on the more generalized retirement and disability provisions for city employees. If D.C. is in prospective financial troubles, so are many others.

If State and local government employment continues to expand as rapidly as it has during the last quarter century, the financial crisis will be postponed for a decade or two. But if the California proposition 13 takes hold in other States and localities, the financial problems of the States and localities will become a national problem of major dimensions.

Question 3. You request "more intensive study of the early retirement problem in order to find out what could be done to bring the situation under conrol." What factors should be considered in such a study?

Response. The most urgent need for the analysis and solution of the problem of early retirement is the collection and publication of statistics which would show the dimensions of the problem in future decades. The first question is, at what ages are government and private industry employees retiring and drawing their pensions?

For the Federal Government, the Civil Service Commission as well as other agencies, issue comprehensive statistics on this subject. In State and local governments such data must be available in state and local records, but it is now largely unpublished and uncollected on a national basis. There is a further question as to whether the governments would make such information available to the general public. Would there be any possibility, even on a sample basis, of developing some statistical trends which would make possible the development of some future projections? In private industry systems such information is no doubt available, but it is not collected and published.

[1] Subcommittee hearings, Feb. 23, 1978, p. 13.

A second problem relates to the combination of retirement and employment. The Federal Government has recently issued some statistics showing the extent to which military retirees drawing military benefits are working at full pay in the civilian agencies of the Federal Government. Furthermore, there are some agencies in which a retired Federal civilian employee can work a limited amount (part-time or part-year) with no reduction in his (or her) regular retirement benefits.

However, it is not known to what extent private industry retirees continue to work while drawing retirement benefits. In the case of the United Mine Workers in the coal industry, the miner can draw benefits at age 55. He can't work anymore in the coal industry without losing his coal benefits. But he could work in any other industry and keep whatever earnings he makes. In the case of State and local governments, there are numerous examples of early retirement, at age 50 or earlier, in which the retiree can draw his local government benefits while holding a full-time job in private industry. The key question here (for the future of the retirement system) is the extent to which employees choose early retirement coupled with regular work in another industry. Such information could only be obtained by matching that retirement with social security employment records.

There is another aspect of the work-retirement relationships which requires further study. That could be the effect of the social security permissible work earnings upon private or other government retirement benefits. A retired social security beneficiary can now earn up to $4,000 in annual earnings without any loss of benefits, with $1 reduction in benefits for each $2 of additional earnings. A retiree drawing $3,600 in regular benefits could receive $7,000 from both. If he earned $6,000 on the job, he would get a total of $8,600, losing $1,000 of his pension. At earnings of $11,200 he would lose his pension altogether (as long as he earned that much income from work).

As is evident from the above analysis, there are a number of aspects of early retirement with full benefit payments which should be explored in order to find out what action, if any, should be taken.

Question 4. This committee has reported that persons on retirement income budgets pay proportionately more of that income for items in which the greatest price increases are occurring; food, shelter, utilities, transportation, and health care. Do you agree with that statement? Would you care to supplement your earlier remarks about the need for a special cost-of-living index for older persons?

Response. When basic subsistence costs are high, the elderly retired persons will be paying a larger proportion of their benefits for such necessities. This points to the need for a special index for elderly couples, with possibly an adjustment for singles.

Such an elderly couple's cost-of-living index did receive some attention in 1964–65, when the Consumer Price Index revision had gone into effect in 1964. The study of family expenditures had shown that the pattern of expenditure of the elderly did not match closely the patte s for the standard four-person family represented in the CPI.

However, the needs of the "great society" programs plus the outbreak of the war in Vietnam knocked out the possibility of establishing continuing family expenditure studies, which would have been required to construct the indexes for the elderly.

Now that the CPI has just been revised, this is a most appropriate time to consider the establishment of an elderly couple's index, with perhaps separate single's indexes for men and women.

Question 5. What suggestions would you make for changes in Department of Labor statistical reporting to better reflect problems of middle-aged and older workers?

Response. This question raises the issue of additional information which might be collected by the Bureau of Labor Statistics. That bureau is opening up some areas of research that are germane. There is now in preparation an article in the Monthly Labor Review on the "Employment Characteristics of Older Men," by Philip L. Rones, an economist in the Office of Current Employment Analysis. This will appear in a near-future issue of the Review. The following is a brief quotation from the Introduction:

"This article focuses on those older persons who do continue to work. The discussion includes the major factors which contribute to the older worker's decision to remain on the job and how these factors are reflected in their employment characteristics. Particular emphasis is placed on the reasons behind the industry and occupational employment patterns of older workers."

A preliminary draft of this paper indicates that it will provide significant information on work versus retirement for older workers. One of the significant findings of the report is the growing importance of part-time and part-year work for older workers.

Another aspect, which is not a part of this BLS study, but which requires more research, is the relationship of work and benefits. How many middle-aged or elderly fully employed workers are also drawing retirement benefits? There might be early retirees from local government working in private industry. Or conversely, an early retiree from private industry might find a government job—Federal, State, or local. Or again, a worker retired from one private industry might find employment in another, at least combining wage and retirement income and possibly acquiring a second private pension.

Another angle which might be explored is the extent to which professionals and retirees with administrative skills become self-employed workers while they are drawing full retirement benefits.

There is one aspect of retirement systems which could usefully be explored. That is the benefit experience of workers in industries and occupations in which there is much labor turnover. This might stem either from the worker constantly seeking better jobs or from business failures, especially of small and medium-sized firms. Examples have been cited of workers with a lifetime of work experience but without earning any retirement benefit except social security.

There have been some valuable studies focusing upon the age groups 62–64, 60–64, and 58–62. The age groups which have not been adequately surveyed in these older worker studies are those 50–54 and 55–59. What is urgently needed is some knowledge of the extent to which workers, men and women both, combine work and retirement—at what ages and at what income levels.

Question 6. How much would an elderly person's purchasing power be reduced if he retired today on a $10,000 annual pension at the age of 65 if our annual inflation rate would be 6 percent per year for the next 12 years? What would be the effect under the same circumstances if the annual inflationary rate would be reduced to 4 percent per year?

Response. A retired worker drawing benefits of $10,000 a year would have the purchasing power cut in half with a 6 percent inflation rate over a period of 12 years ($5,057). The following table shows the shrinking purchasing power of that pension. For this calculation the results are rounded to the nearest dollar.

Year:	*Purchasing power*
1	$10,000
2	9,400
3	8,836
4	8,296
5	7,798
6	7,330
7	6,890
8	6,477
9	6,088
10	5,723
11	5,380
12	5,057

At the end of 6 years, the retiree would lose over one-fourth of the value of his pension ($7,330). In 9 years, its purchasing power is almost down to 60 percent of the original benefit.

At an inflation rate of 4 percent the retiree comes out much better.

Year:	*Purchasing power*
1	$10,000
2	9,600
3	9,216
4	8,847
5	8,493
6	8,153
7	7,824
8	7,514
9	7,213
10	6,925
11	6,648
12	6,382

At the end of 6 years, the retiree is down about 19 percent ($8,153), and at 9 years about 28 percent ($7,213). In the 12th year, the loss has been over 36 percent.

However, these mathematical calculations do not show the full extent of the readjustments that such a worker would have to make. Clothing, for example, is seldom a heavy expense to elderly people in their retirement. Housing can be a major problam, both for renters and for many homeowners. But it is the basic necessities of food and utilities which become dominant with a shrinking income.

Furthermore, for early retirees 12 years may be far too low an estimate. With increasing longevity, those retiring at 62 have a reasonable prospect of about 16 years. That would result in the following shrinkage of retirement income in a period of 6 percent annual inflation.

Year:	*Purchasing power*
13	$4,754
14	4,468
15	4,200
16	3,948

The additional years would bring a shrinkage of purchasing power to less than $4,000 in the 16th year. The retiree would by that time be approaching the poverty level.

Question 7. Would the development of new work patterns—such as part-time employment, phased retirement, and others—have any effect at all in moderating inflation?

Response. New work patterns could have some effect in moderating inflation, but they might also have areverse effect. The result will depend upon the impact of the earnings upon the retirement benefits. My original testimony cited the example of the retired woman who worked over the summer from April to October and then drew unemployment insurance during the autumn and winter months, when no work was available in that community. The combination of $3,000 of earnings plus perhaps $2,000 in unemployment insurance would generate more purchasing power than would be covered by the output of goods resutling from her earnings.

Steady part-time work throughout the year could contribute to reduction of inflation. At the new 1978 earnings rate of $4,000 a year, a steady worker earning more than $80 a week could be making a contribution to lower inflation, if his productive output was worth more than $4,000, as it would have to be if his employer kept him regularly on the job. The result here would be the opposite of the above example.

Phased retirement might also reduce costs. Take the example of the worker who gradually retired by vacationing two more months each additional year from age 65 through 69, with full retirement at age 70. Substantial retirement money would be saved for the fund by that method of gradual retirement.

There is a need for more exploration of the combination of work and earnings which would benefit the worker and at the same time help the retirement funds.

Question 8. It is my understanding that much of the information about early retirement in State and local governments is quite often unavailable or incomplete. Would you agree with this statement? And if so, is this another reason that you call State and local early retirement a "time bomb"?

Response. Early retirement statistics for State and local governments are generally unavailable or incomplete. Unavailable means that, while the State or local government may have in their records a substantial volume of information, these data are not regularly published in documents available to the public. Incomplete means that such data as are published may not be analyzed and interpreted for the general public in the way that the Social Security Administration presents its annual reports and predictions for the future.

Perhaps equally important is the fact that many State and local governments are actively engaged in developing and expanding their retirement systems. Some of these are late comers in retirement programs, which means that they are primarily interested in catching up with their neighbors. Such government organizations, State or local, are more likely to be interested in improving the benefits rather than analyzing future costs.

That is the reason for calling such a program for a State or locality a "time bomb." As previously noted, the early stages of an expanding retirement program are always easy and pleasant—receipts far outrun the payments. It is only when the actuaries and analysts project far into the future that the financial

problems become readily apparent and prospectively alarming. The trouble is that State and local legislators are more interested in the next year than in the next decade.

Question 9. Today, inflation seems to be more persistent than it used to be. Why is our Nation not obtaining more results in terms of controlling rising prices?

Response. The problem with inflation is that there is no agreement among businessmen, labor leaders, or government officials on how to control it. Even among some professional economists there is no agreement as to its cause and cure. The only practical approach is to assess each contributing factor to see what its impact is on costs and prices.

In terms of its size and weight, the most dominant factor is wages and salaries, which comprise about 75 percent of the gross national product. Wage and salary increases are usually negotiated (or awarded by nonunion employers) at a level sufficient to cover the persistent rise in the Consumer Price Index. In addition, it has been the custom to give a further wage increase to reward labor for the rise in productivity. With a cost-of-living increase of 6 percent plus a productivity increase of 3 percent, a 9 percent wage increase (average for the economy as a whole) would just balance costs and prices.

Wage (and salary) increases that exceed the cost of living plus productivity (for example, 10 or 12 percent a year) will guarantee further inflation. Of course, highly productive industries with a 5 or 6 percent productivity improvement can pay wage increases of more than 3 percent without raising prices. But the major part of the problem is that industries with negligible or declining productivity find their workers asking for the same wage increase that the more productive industries are obtaining. That situation forces a substantial rise in those prices and stimulates further inflation.

Two additional factors are now operating to increase labor costs and thus to generate price increases. One is the establishment by law of higher health and safety standards within industry. This is already having an economywide effect in that productivity gains are now under 2 percent (national average), not the former 3 percent. It is necessary to emphasize strongly that when improved standards lower productivity and raise labor costs, then wage increases have to be restrained, if further inflation is to be prevented.

The second factor is the legislated minimum wage. That applies to the unskilled, the uneducated, and other handicapped who are at the bottom of the wage pyramid. Congress and the State governments periodically take action to raise this minimum. When no action is taken for several years, which has recently been the case, that minimum still applies to many employed workers. Then when revision legislation is passed, there is a substantial jump in the amount—from $2.35 an hour to $2.65 in 1978, and to $2.90 in 1979. That is an overall increase of over 23 percent in 2 years. The immediate effect will be a major increase in labor costs in those industries with large numbers of unskilled workers, followed by a substantial rise in the prices of their goods and services.

There will be two subsequent results. One will be a rise in unemployment of the unskilled. The papers are already reporting stories of employers economizing on labor. There will be more cafeterias and fewer restaurants. Mechanization will take place wherever it is possible. In the District of Columbia there is a proposal for a minimum wage of $3.25, which would assure some additional unemployment in the District, since both Maryland and Virginia will have lower minimums.

The other result will be a sharp upward movement of wages just above the minimum. Workers who have been making $3 an hour, nearly 30 percent higher than the $2.35 unskilled, will make demands for the establishment of a larger differential above $2.90, one more appropriate to their higher skill. So up through the wage structure there will be some rising wage adjustments to restore, in some degree at least, a significant differential for the higher-skilled workers.

For the future, the present wage program provides for annual adjustments in the minimum. This will produce more gradual increases and avoid the heavy impact of the 1978–79 increases. For the present, however, the outlook is for rising labor costs and higher prices in 1978–79.

BUSINESS PROFITS

After wages and salaries have absorbed 75 percent of gross national product, there remains 25 percent, which consists of perhaps 10 percent for rent, interest, and capital replacement, leaving about 15 percent in profits to the businessmen.

Out of that, with a 25 to 50 percent tax on profits, there is left about 8 to 9 percent available for business investment. That item is what provides for economic growth and expansion.

Some of these profits are distributed to the stockholders, who then have to pay income tax on their dividends. So profits are taxed twice, which limits the funds available for new investment. In many European countries, business profits which are reinvested immediately in the enterprise are not taxed, thus encouraging profitable businesses to expand. In the United States, there have been occasions when Congress has exempted some reinvestment from profits taxation, but the total amount has not been large.

The difficulty with public understanding of profits is that a reported 10 percent increase in business profits seems spectacular, whereas in fact it amounts to only 1.5 percent of GNP. Furthermore, such an increase, if not taxed away, could result in significant increases in capital investment. This is the only way that the economy can expand—a larger volume of capital investment.

There are some economic data which point directly to what people in the United States are doing with their savings, namely, investing in land and homes. The spectacular increases in the price of land and private homes are clear-cut evidence of people putting their savings into something which will insure their protection against inflation.

It is of some interest to note that the two advanced nations which have done well in protecting their economies from inflation are Germany and Japan. The German people have had two disastrous experiences with inflation—World War I and World War II. The Japanese experienced the second. The labor movements in those countries are willing cooperators with the government in checking inflation.

INTERNATIONAL

The U.S. dollar, which since World War II has been the world's basic currency, is falling in value. One major factor in this situation has been the enormous cost of oil imports. Recent figures indicate that these comprise about 50 percent of the U.S. adverse balance of trade. The ominous outlook for the future is that the weakening of the dollar is already giving rise to a proposal for another increase in the world price of oil. That would result in a still larger U.S. deficit in foreign exchange and a further weakening of the dollar.

Meanwhile, domestic oil prices (for oil wells in current production) are being held down to less than half the world price. The United States is the only Western industrial nation which is not economizing on oil consumption. Gasoline prices are less than half of those in Western European countries. If domestic oil production could be increased and imports decreased, the dollar would be strengthened. Furthermore, U.S. self-dependence would be increased at a time when the world economic outlook is becoming more uncertain.

The same point can be made about natural gas. It is the best of all fuels. It should be the highest priced, not the lowest; and the price should be high enough to promote more domestic exploration.

Finally, the continuing decline in the purchasing power of the dollar will stimulate further inflation in the United States. Many imports (materials) are necessary for the growth of the U.S. economy. Such purchases abroad will cost more in dollars and will raise the U.S. prices of the final products.

In summary, the best solution to reduce U.S. inflation is to increase U.S. production and strengthen the dollar as a world currency. There is some risk of a business recession, but this could be mild if action is taken soon. It is imperative to avoid a financial crisis of the 1929 variety.

○